

**TOWN OF MONTREAT
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

**TOWN OF MONTREAT
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

**PREPARED BY
THE FINANCE DEPARTMENT OF THE TOWN OF MONTREAT**

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FOR THE YEAR ENDED JUNE 30, 2017

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INTRODUCTORY SECTION

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Town of Montreat

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www.townofmontreat.org

September 29, 2017

The Honorable Mayor and Members of the Board of Commissioners
Town of Montreat
Montreat, North Carolina

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017 is hereby submitted. This is our sixth annual CAFR. For readers that are unfamiliar with municipal CAFRs, a brief introduction is in order.

In the simplest possible terms, one could think of a CAFR as a financial reporting sandwich. The audited financial statements and notes could be thought of as the meat of the sandwich. In a CAFR, we add material to both ends of the audited material, just as there are slices of bread on each side of the meat. In the front end we add introductory materials such as a table of contents, this transmittal letter, an organization chart, and similar items. In the rear of this CAFR you will find a set of supplementary statistical information, providing additional data beyond what is presented in the audited financial statements. While virtually all governmental units (including all North Carolina local governments) must produce annual audited financial statements, a CAFR is considered to be a step beyond this minimal requirement. Local governments produce CAFRs in an attempt to better inform their elected officials and the general public about their financial condition. In some cases, lenders may also expect to see a CAFR for the sake of the additional information they provide.

The basic structure of this and all CAFRs conform to standards that have been established by the Government Finance Officers Association (GFOA). These standards are somewhat flexible, given that there are so many differences between governmental units at the state and local level. This CAFR reflects the attempt of the Town's administration to provide the reader with that information, which we believe to be most relevant to our particular situation and to the needs of our elected officials and our citizens.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation (including all disclosures within this report) rests with the administration of the Town of Montreat. To ensure reliability of the information, Town management has established a comprehensive framework of internal control. Internal controls protect the Town's assets from loss, theft and misuse and help ensure that information is reliable for

the preparation of this report. Because the cost of internal controls should not outweigh their benefits, the Town's controls have been designed to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements. We believe, to the best of our knowledge and belief, that this financial report is accurate and reliable in all material respects. The financial statements and supplemental schedules contained herein have been audited by the independent certified public accounting firm of Martin Starnes and Associates, CPAs, P.A. Their unmodified opinion is included in the financial section of this CAFR.

In this CAFR and the audited financial statements contained herein, we are reporting on the financial accounts and activities considered to be controlled by or dependent upon the Town's Board of Commissioners, as defined by the Governmental Standards Accounting Board (GASB). The Town of Montreat is a small municipality, and provides a substantial but limited range of services to our citizens. Our General Fund accounts for the police, building inspections and zoning, streets, sanitation, and Open Space programs undertaken by the Town, as well as its general governmental activities. Our Water Fund accounts for the activities associated with operating, maintaining, and expanding the Town's water system. Some other functions that might be typically provided by municipal governments, such as fire protection or wastewater treatment, are provided in Montreat by other governmental entities (i.e., the East Buncombe Fire District and the Metropolitan Sewer District of Buncombe County), which service a wider region and thus are not included within the purview of this CAFR.

An obvious question that any reader of a document such as this one will ask immediately is: How are we doing? What is the financial condition of the Town? The administration of the Town of Montreat can confidently report that our Town is in good financial condition. Our revenues and expenditures have been roughly in balance with each other, remaining relatively steady from year to year, and remaining adequate to meet our highest priorities. Our fund balances and cash assets are ample, and our indebtedness is prudently low. We provide a more complete review of the Town's financial condition in the Management's Discussion and Analysis (MD&A) section of the audited financial statements, immediately following the auditor's opinion letter below. That document and this letter are intended to be read together. Combined, it is hoped that the reader will derive a comprehensive overview of the Town's present situation.

Profile of the Town

The Town of Montreat is situated on the Southern slopes of the Black Mountains of the Blue Ridge range, including Mt. Mitchell, the tallest peak East of the Mississippi, and the Eastern Continental Divide. Our community is placed entirely within a narrow box canyon bisected by the rapidly running clear water of Flat Creek, a tributary of the Swannanoa River. It is a heavily wooded, rugged mountainous terrain and enjoys four distinct seasons of natural beauty. Our healthy natural environment teams with wildlife, including the black bears that are symbolic of our community and are commonly seen by our residents and visitors.

Montreat is a small community with an official population of only 798 people according to the U.S. Census Bureau and N.C. Office of State Budget and Management. This figure is somewhat deceptive as far more people than that abide in Montreat temporarily over the course of the year, especially during the summer months, while there is a different population of Montreat College students during the school year. Only a few hundred people are actual year-round residents.

While the community of Montreat is over a century old, the Town has only been incorporated since 1967. Montreat is predominantly a residential community. While some of our residents live here year-round, many have their primary residence elsewhere and come here only seasonally or for vacation. There are also a mix of single family, multi-family, and group seasonal rental units in Montreat. Our community is home to two large institutions: The Montreat Conference Center and Montreat College. These two institutions, along with the town's residences and the Town government, all have an intertwined history and continue to cooperate together to the present day. The Town exercises direct jurisdiction over 2.78 square miles, and exercises limited extraterritorial jurisdiction for land use regulation over much of the remaining territory within our cove up to the ridgelines.

There are no industrial and only minimal commercial entities within the Montreat Town limits, although there are a wider range of such entities within the immediately adjacent Town of Black Mountain. While a large portion of our population (disregarding conferees and vacationers) are either college students or retirees, many of our working-age population commute to employment in Black Mountain, Asheville, or other nearby communities.

Montreat operates under a mayor-council form of government. The Town Board of Commissioners consists of a mayor and five commissioners, all elected at large to staggered four year terms. The Town provides police, water, solid waste collection, streets, and code enforcement services to its residents. Fire protection, sewers, and public education are provided by other governmental entities serving part or all of Buncombe County.

Local Economic Conditions

As indicated above, Montreat is a small residential community with no industry and – excepting the two large not-for-profit institutions - a trivial commercial sector. Most of our residents are either college students or retirees living here for part or all of the year. Only a minority of our population is employed, and most of these people commute to jobs in Black Mountain, Asheville, or other nearby communities. In turn, most of the employees of the Town, the Montreat Conference Center, and Montreat College do not live in Montreat but rather commute in from other nearby communities. A total of 340 people were employed in Montreat, earning a total of \$8,767,000 in wages and salaries in 2010, according to Census Bureau data. Most of the income received by Montreat residents thus comes from either wages and salaries earned elsewhere, or from pension, investment, and government transfer payments that all derive from outside the community. With the exception of the payment of property taxes, water bills, and – in the case of college students – tuition, most of the income received by Montreat residents is expended outside of our

town limits. The Montreat Conference Center also receives fees paid by conferees that live outside of the area. In consequence of all of this, the local Montreat economy is extremely integrated with and dependent upon the wider regional and national economy, and there is very little that can or does happen here that has an impact upon the flow of funds through our community.

The Asheville Metropolitan Statistical Area and the entire Southern Highlands region have become an attractive destination for retirees over the past few decades. As a consequence, the median age for the Asheville MSA is 42.2 years vs. 36.9 years nationally, according to Census Bureau data. The source of household income within the entire region is skewed more toward unearned income (investment income, rents, pensions, government transfer payments) and away from earned income (salaries and wages) than the national average. The advantage of this is that the unearned income tends to be more stable than is the case with earned income subject to cyclical fluctuations in employment. This in turn means that the regional economy has been more stable and less vulnerable to the extremes of the boom and bust cycles that have been inflicted upon the national economy as a whole. The unemployment rate in the Asheville MSA has generally remained somewhat below national averages, and stood at 3.9% vs. 4.9% in June of 2016. Regional employment continues the same national trend of a slow recovery.

While we have largely recovered from the recent recession, the regional employment market has nevertheless offered limited opportunities for job seekers even during good times, especially for those who are highly educated or skilled, and as a consequence individual and household incomes in this area have generally been below national averages. For example, the median household income in the Asheville MSA in 2015 was \$44,826 vs. a national median of \$56,516, according to the Economic Development Coalition of Asheville-Buncombe County. Montreat is a more affluent community than is typical for our area, and our residents thus enjoy higher incomes: a 2010 household median of \$48,430, and a household average of \$60,893, according to CLRsearch.com.

Overall non-farm employment in the Asheville MSA has increased by 9.4% from 2010 to 2015, according to the Economic Development Coalition of Asheville-Buncombe County. The best performing sectors in our region have been: professional and business services (with an increase of 20.0% from 2010-2015); leisure and hospitality (with an increase of 19.8% from 2010-2015); transportation & utilities (with an increase of 18.2% from 2010-2015); and health care and education (with an employment increase of 14.0% from 2010-2015). In contrast, the area has experienced sustained declines in the government (-8.8%); information (-5.3%), and wholesale trade (-2.1%) sectors between 2010 and 2015.

The Asheville region has had a history of being a center for healthcare going back to the large concentration of tuberculosis sanitariums located in the area over a century ago. More recently, the large influx of retirees settling in the region, with their increasing needs for health care as part of the natural aging process, has led to the development of an extensive health care industry serving the local population. Most of the hospitals, specialist clinics, and other facilities serving the Montreat population are located in Asheville, but there are a few private health care practices located in Black Mountain that serve some of our residents.

In addition to Montreat College, located within our Town's boundaries, the area is also served by several other institutions of higher learning. The famous Black Mountain College closed a half-century ago, but Warren Wilson College is still operating nearby. Asheville is home to both the Asheville-Buncombe Technical Community College and the University of North Carolina at Asheville. In addition to the Buncombe County and Asheville City public school systems, several private primary and secondary schools operate in the area; none of these have facilities within the boundaries of the Town of Montreat, and all of our K-12 students must be transported to schools in Black Mountain or elsewhere.

The growth of the professional and business services sector in our area mirrors the nationwide trend and the U.S. continues its transition to a post-industrial economy. In our area, this trend appears to be driven not by a few large employers but rather by the growth of a myriad of smaller firms. The area, with its exceptional quality of life, is an attractive location for entrepreneurs to set up small businesses, especially ones that are able to deliver services nationally and even globally over the internet.

Tourism has been a strong regional industry going back for over a century. People have always been drawn to the beautiful scenery, comfortable climate, and abundant recreational opportunities offered by our mountains. Tourism is an industry in which Montreat participates directly through the Montreat Conference Center. Because most of our visitors come from North Carolina and other nearby states rather than internationally, our area has been seen as a relatively inexpensive vacation destination and an affordable value for many people living in the Eastern half of the nation.

As in much of the rest of the nation, the construction industry in the Asheville MSA was hit hard by the recent downturn, but is recovering. Because of our limited area for development due to our mountainous terrain, Montreat saw less new construction during the boom times through the mid-2000s than did the rest of the region and the nation. At the same time, we are continuing to see a few new houses built each year, and our homeowners – generally more affluent than the national average – continuing to contract for repairs, remodeling, and additions at a steady or even increasing pace. Thus, Montreat is actually a little bit of a bright spot for local contractors, and their business here has been doing quite a bit better than the regional and national statistics would suggest. The rate of increase in housing values for Asheville MSA for the year ended June 30, 2016 was 7.23% (as indicated by the All-transactions Housing Price Index, per the Federal Housing Finance Agency). This exceeds the national average of 4.86%, indicating strong recent progress toward recovery.

Manufacturing has never been the dominant employer in the area, due to our distance to larger markets and the extra difficulties and expenses involved in transporting products through the mountains. Textile manufacturing used to be an important industry in the Swannanoa Valley, but it has declined precipitously over the past couple of decades. The outsourcing trends driven by globalization over the past decades adversely impacted many manufacturers in the area, but there have been some recent gains in manufacturing employment in some local industries. There never has been any manufacturing located within the Town of Montreat, and it is doubtful that many of our residents are employed in this sector.

Local government, represented by the Town of Montreat, is itself an important industry in the local economy. Montreat is fortunate in enjoying a relatively stable and affluent tax base, and has thus not had to implement the severe expenditure reductions that many other local jurisdictions have been forced to do. Our general and water fund budgets (excluding extraordinary grant-funded activities) have remained relatively stable over the past five years. While governments at all levels in the Asheville MSA reduced employment by 8.8% over the past five years (according to the Economic Development Coalition of Asheville-Buncombe County), the Town of Montreat was able to hold its staffing steady at 14 full-time employees.

Long-Term Financial Planning & Major Initiatives

The Town's Board of Commissioners and staff are dedicated to managing the Town's financial affairs in a professional and prudent manner, and to maintaining the Town in sound financial condition. To this end, we strive to maintain fund balances that are in excess of annual operating expenditures. We avoid running operating deficits and funding them with appropriated fund balance unless absolutely necessary for the internal funding of extraordinary expenditures to avoid taking on additional debt. Our indebtedness is far below the maximums mandated by North Carolina state law. We strive to manage the Town's operations efficiently and to avoid the need to resort to increases in the ad valorem tax rate. The Water Fund is operated as much as possible on a fully self-supporting basis, and we attempt to set water rates that are fair to all users.

The Board of Commissioners, in collaboration with the Town staff, establishes a set of goals as a part of the annual budget process. These goals are discussed in the Town's annual budget document, which is available on the Town's website (www.townofmontreat.org).

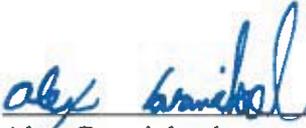
The Town also maintains a multi-year Capital Improvement Plan as a part of its annual budget process. Two large projects were under consideration throughout FYE 17 but remain in a preliminary planning stage: the building of a new town hall, and the replacement of a bridge on Texas Road. Further progress on each is pending decisions to be made by the Board of Commissioners and the local community.

Awards and Acknowledgements

The previous fiscal year that ended on June 30, 2016 was our fifth year that the Town has participated in the Certificate of Achievement for Excellence in Financial Reporting program of the Government Finance Officers Association. We are pleased to report that the Town did once again receive this award, and it is our intention to also submit this current year CAFR to the GFOA program.

The preparation of this comprehensive annual financial report was made possible with the assistance of Martin Starnes & Associates, CPAs, P.A., and with the assistance of the Town of Montreat staff members, to whom we express our appreciation. We also acknowledge the support of the Mayor, Board of Commissioners, and members of the Audit Committee

of the Town of Montreat in our efforts to improve the professionalism and quality of our management and reporting of the Town's financial affairs.

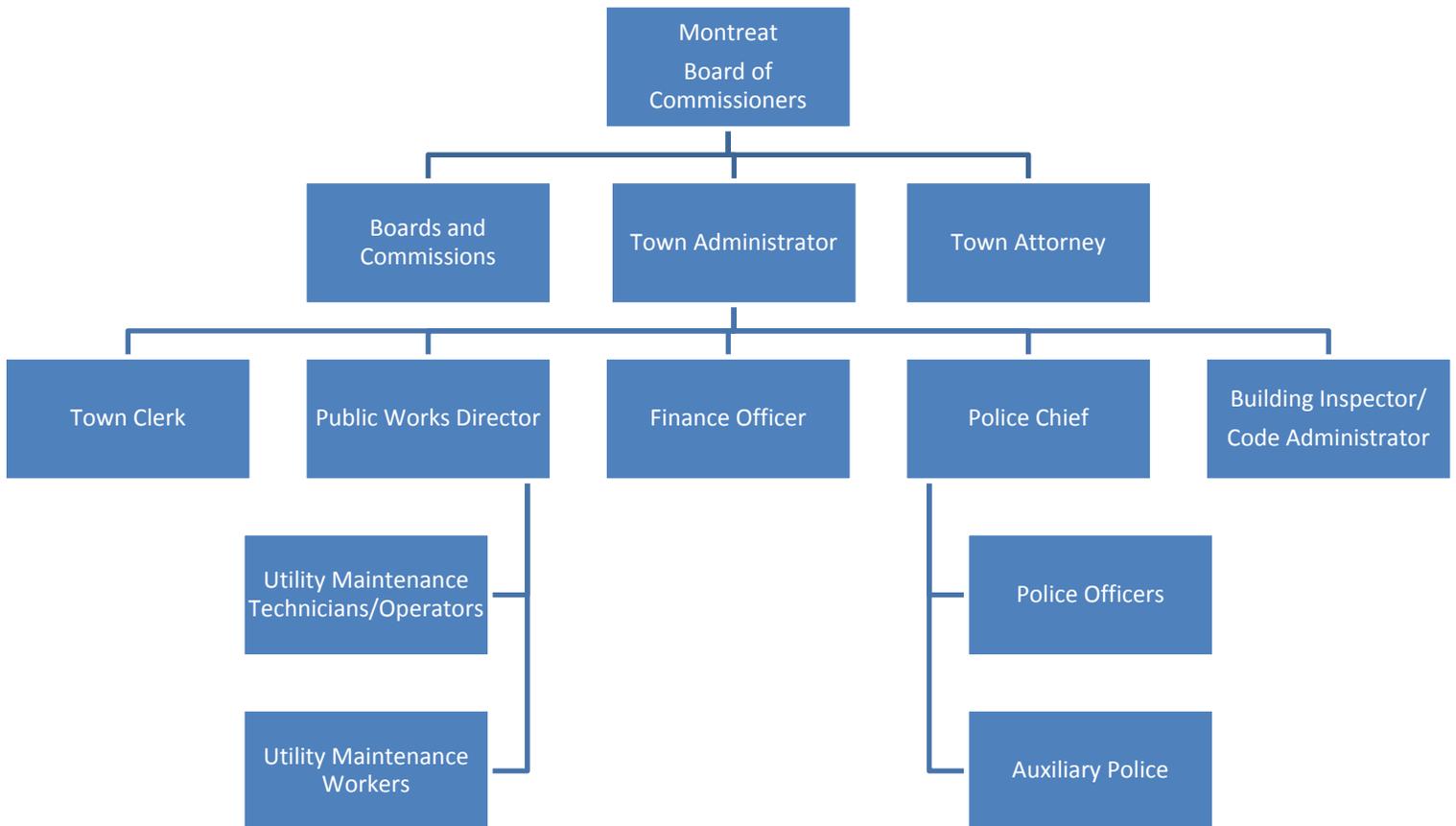


Alex Carmichael
Town Administrator



Stefan Stackhouse
Finance Officer

TOWN OF MONTREAT ORGANIZATIONAL CHART





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Town of Montreat
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

Town of Montreat, North Carolina
List of Principal Officials
June 30, 2017

TOWN COUNCIL

Honorable Tim Helms, Mayor
Kathryn Fouche, Mayor Pro Tem
Mary Standaert
Ann Vinson
William Gilliland
Kent Otto

ADMINISTRATION

Alex Carmichael, Town Administrator
Stefan Stackhouse, Finance Officer
Angela Murphy, Town Clerk
David Arrant, Interim Chief of Police
Steven Freeman, Director of Public Works

AUDIT COMMITTEE

William Gilliland, Chair
Hugh Alexander, Vice Chair
Phillip Arnold, Secretary
Mary Standaert
Ann Vinson

FINANCIAL SECTION

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MARTIN STARNES

& ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

INDEPENDENT AUDITOR'S REPORT

To The Honorable Mayor
And Members of the Board of Commissioners
Montreat, North Carolina

Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Montreat, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Montreat, North Carolina, as of June 30, 2017, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Montreat, North Carolina. The introductory section, budgetary schedules, supplemental ad valorem tax schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules and supplemental ad valorem tax schedules are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedules and supplemental ad valorem tax schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated September 29, 2017 on our consideration of the Town of Montreat's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of the report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Montreat's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Montreat's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 29, 2017

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Management's Discussion and Analysis

As management of the Town of Montreat, we offer readers of the Town of Montreat's financial statements this narrative overview and analysis of the financial activities of the Town of Montreat for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

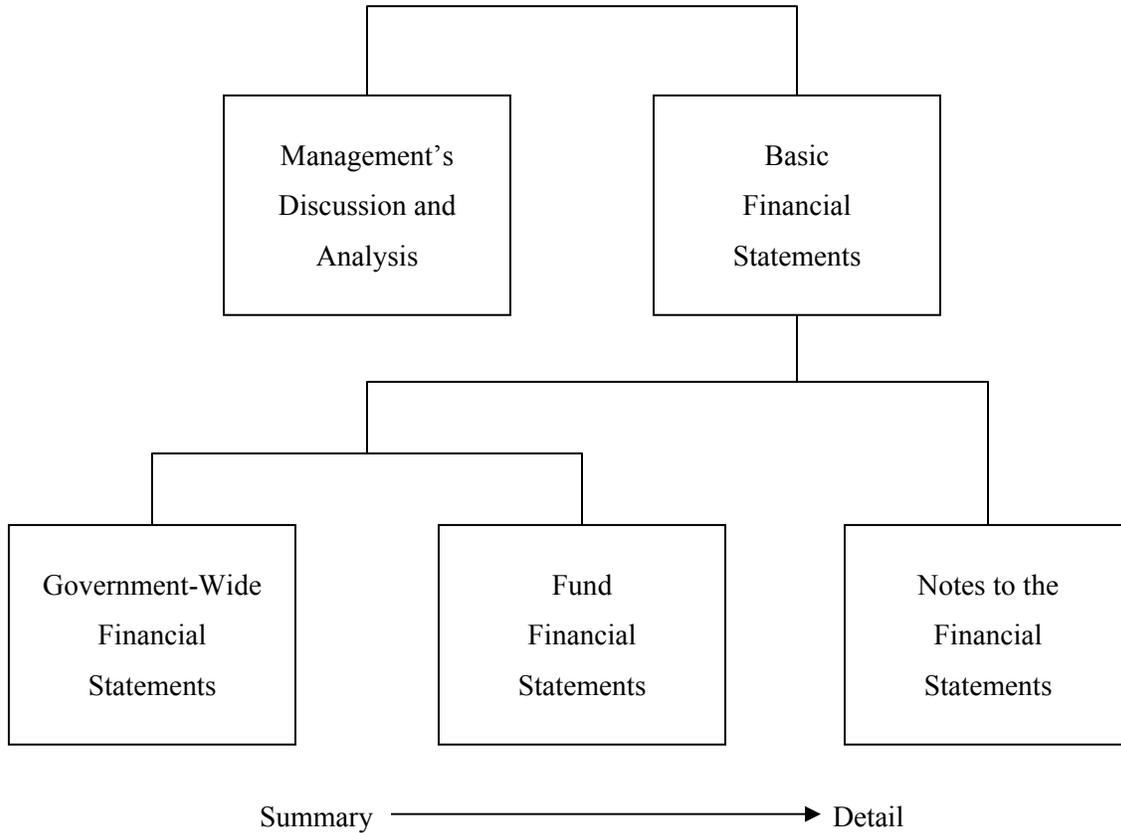
- The assets and deferred outflows of resources of the Town of Montreat exceed its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,288,351 (*net position*).
- The government's total net position increased by \$170,015, primarily due to diligent cost-saving measures.
- As of the close of the current fiscal year, the Town of Montreat's General Fund reported ending fund balance of \$1,923,120 with a net increase of \$91,686 in fund balance. Approximately 17.7% of this total amount, or \$341,353, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,364,487, or 88.3%, of total General Fund expenditures for the fiscal year.
- The Town of Montreat's total debt increased by \$2,635 (0.2%) during the current fiscal year. The key factor in this increase was the increase in net pension liability for the LGERS plan.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Montreat's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Montreat.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **government-wide financial statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C - I) are **fund financial statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and total liabilities and deferred outflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services, such as general government, public safety, transportation, and general administration. Property taxes and federal and State grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water services offered by the Town of Montreat.

The government-wide financial statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Montreat, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Montreat can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Montreat adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds - The Town of Montreat has one proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Montreat uses enterprise funds to account for its water activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 26 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Montreat's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 55 of this report.

Interdependence with Other Entities - The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

Town of Montreat's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 2,134,011	\$ 1,866,710	\$ 848,000	\$ 782,436	\$ 2,982,011	\$ 2,649,146
Capital assets	3,915,657	3,903,219	1,668,915	1,740,829	5,584,572	5,644,048
Deferred outflows of resources	186,757	54,625	-	-	186,757	54,625
Total assets and deferred outflows of resources	<u>6,236,425</u>	<u>5,824,554</u>	<u>2,516,915</u>	<u>2,523,265</u>	<u>8,753,340</u>	<u>8,347,819</u>
Long-term liabilities outstanding	577,540	491,313	636,696	720,288	1,214,236	1,211,601
Other liabilities	211,369	27,304	25,359	27,715	236,728	55,019
Deferred inflows of resources	14,025	36,742	-	-	14,025	36,742
Total liabilities and deferred inflows of resources	<u>802,934</u>	<u>555,359</u>	<u>662,055</u>	<u>748,003</u>	<u>1,464,989</u>	<u>1,303,362</u>
Net Position:						
Net investment in capital assets	3,749,519	3,707,773	1,032,219	1,020,541	4,781,738	4,728,314
Restricted	330,586	294,400	-	-	330,586	294,400
Unrestricted	<u>1,353,386</u>	<u>1,267,022</u>	<u>822,641</u>	<u>754,721</u>	<u>2,176,027</u>	<u>2,021,743</u>
Total net position	<u>\$ 5,433,491</u>	<u>\$ 5,269,195</u>	<u>\$ 1,854,860</u>	<u>\$ 1,775,262</u>	<u>\$ 7,288,351</u>	<u>\$ 7,044,457</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Montreat exceeded liabilities and deferred inflows by \$7,288,351 as of June 30, 2017. The Town's net position increased by \$170,015 for the fiscal year ended June 30, 2017. However, the largest portion (65.6%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Montreat uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Montreat's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Montreat's net position, \$330,586, or 4.5%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,176,027 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total unrestricted governmental and business-type net position:

- The net position in governmental activities increased by \$90,417. There were increases in both assets and liabilities, but these, as well as the overall increase in net position, were due primarily to an excess of general revenues over operating expenditures.
- The net position in business-type activities increased by \$79,598, due primarily to an increase in operating revenues of which the receipt of Special Assessment installment payments was a major part of.

Town of Montreat Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 98,987	\$ 103,996	\$ 351,697	\$ 450,882	\$ 450,684	\$ 554,878
Operating grants and contributions	147,450	164,985	-	-	147,450	164,985
Capital grants and contributions	3,694	155,346	-	-	3,694	155,346
General revenues:						
Property taxes	974,695	962,972	-	-	974,695	962,972
Other taxes	402,651	390,699	-	-	402,651	390,699
Other	9,758	3,825	244	3,227	10,002	7,052
Total revenues	<u>1,637,235</u>	<u>1,781,823</u>	<u>351,941</u>	<u>454,109</u>	<u>1,989,176</u>	<u>2,235,932</u>
Expenses:						
General government	604,294	479,543	-	-	604,294	479,543
Public safety	439,093	450,926	-	-	439,093	450,926
Transportation	380,618	362,962	-	-	380,618	362,962
Environmental protection	96,173	12,343	-	-	96,173	12,343
Culture and recreation	20,419	116,083	-	-	20,419	116,083
Interest on long-term debt	6,221	600	-	-	6,221	600
Water and sewer	-	-	272,343	251,345	272,343	251,345
Total expenses	<u>1,546,818</u>	<u>1,422,457</u>	<u>272,343</u>	<u>251,345</u>	<u>1,819,161</u>	<u>1,673,802</u>
Change in net position	<u>90,417</u>	<u>359,366</u>	<u>79,598</u>	<u>202,764</u>	<u>170,015</u>	<u>562,130</u>
Net position, beginning, restated	5,269,195	4,909,829	1,775,262	1,572,498	7,044,457	6,482,327
Restatement	<u>73,879</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,879</u>	<u>-</u>
Beginning of year - July 1 as restated	<u>5,343,074</u>	<u>4,909,829</u>	<u>1,775,262</u>	<u>1,572,498</u>	<u>7,118,336</u>	<u>6,482,327</u>
Net position, June 30	<u>\$ 5,433,491</u>	<u>\$ 5,269,195</u>	<u>\$ 1,854,860</u>	<u>\$ 1,775,262</u>	<u>\$ 7,288,351</u>	<u>\$ 7,044,457</u>

Governmental Activities. Governmental activities increased the Town's net position by \$90,417, thereby accounting for 53.2% of the total growth in the net position of \$170,015 for the Town of Montreat. This compares to an increase of \$359,366 in the previous fiscal year, a difference of \$268,949.

Key elements of this increase are as follows:

- Program revenues decreased by about \$174,196 over the previous year. This was mainly due to a decline in capital grants and contributions.
- Government activity revenues increased by \$29,608 from the previous year. This was due to growth in both the property tax base and an improved State-wide collection of shared revenues.
- Governmental activity expenses increased by \$124,361 compared to the previous fiscal year. This was due mainly to increased general government expenditures.

Business-Type Activities. Business-type activities in the Water Fund increased the Town of Montreat's net position by \$79,598, accounting for 46.8% of the total growth in the government's net position.

Key elements of this increase are as follows:

- Business-type revenues decreased by \$102,168 from the previous year. This is due mainly to the receipt of several large payments in full toward the special assessments in the prior year.
- Business-type activity expenses increased by \$20,998 over the prior year. This was due entirely to increases in operational costs.

Financial Analysis of the Town's Funds

As noted earlier, the Town of Montreat uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of Montreat's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Montreat's financing requirements.

The General Fund is the chief operating fund of the Town of Montreat. At the end of the current fiscal year, the Town of Montreat's fund balance available in the General Fund was \$1,813,548, while total fund balance reached \$1,923,120. The governing body of the Town of Montreat has determined that the Town should maintain 5% of General Fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has available fund balance of 117.34% of total General Fund expenditures, while total fund balance represents 124.43% of the same amount.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

The Town ended the fiscal year with actual revenues in most categories having exceeded the final budgeted amounts. However, due to several grant and special assessment revenues working out differently than anticipated when the budget for FYE 17 was adopted, our total revenues were \$118,957 less than budgeted. Our actual General Fund expenditures in all departments (appropriation is by departmental level) were below budget by a total of \$333,433. The bulk of this was due to delays in beginning a project to build a new Town Hall and in less money being spent on street projects than was initially budgeted. Overall, the Town realized a budget surplus for the year of \$91,686 over the legally required balanced budget.

Proprietary Funds. The Town of Montreat's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water Fund at the end of the fiscal year amounted to \$822,641. The total change in net position for the Water Fund was \$79,598.

The Town's Proprietary (Water) Fund brought in actual revenues in excess of budget of \$15,441. This was due to more special assessment repayments being received than expected. We also expended \$72,353 less than budgeted due to some projects being declared unnecessary at this time. Overall, the Water Fund ended with a surplus over the original balanced budget of \$87,794.

Capital Asset and Debt Administration

Capital Assets. The Town of Montreat’s investment in capital assets for its governmental and business-type activities as of June 30, 2017 totals \$5,584,572 (net of accumulated depreciation). These assets include land, buildings, building improvements, equipment, infrastructure, vehicles, and water system.

Major capital asset transactions during the year include the following:

- Two paving projects (Upper Louisiana and Mecklenburg) totaling \$185,867
- A new sanitation truck and new police patrol car totaling \$96,891
- A computerized purchase order management software module for \$1,500

Town of Montreat’s Capital Assets (net of depreciation)

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,355,224	\$ 1,355,224	\$ 367,968	\$ 367,968	\$ 1,723,192	\$ 1,723,192
Construction in progress	337,006	490,430	-	-	337,006	490,430
Buildings	1,825	1,873	78,179	81,732	80,004	83,605
Building improvements	17,895	21,489	517,628	537,537	535,523	559,026
Equipment	707,098	708,519	14,949	29,899	722,047	738,418
Infrastructure	1,330,627	1,219,578	690,191	723,693	2,020,818	1,943,271
Vehicles	165,982	103,254	-	-	165,982	103,254
IT equipment	-	2,852	-	-	-	2,852
Total	<u>\$ 3,915,657</u>	<u>\$ 3,903,219</u>	<u>\$ 1,668,915</u>	<u>\$ 1,740,829</u>	<u>\$ 5,584,572</u>	<u>\$ 5,644,048</u>

Additional information on the Town’s capital assets can be found in Note 2 of the basic financial statements.

Long-Term Debt. As of June 30, 2017, the Town of Montreat had total bonded debt outstanding of \$118,000 and \$684,834 of installment debt.

Outstanding Liabilities
Figure 5

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Bonds payable	\$ -	\$ -	\$ 118,000	\$ 146,000	\$ 118,000	\$ 146,000
Installment debt	166,138	195,446	518,696	574,288	684,834	769,734
Compensated absences	133,027	103,809	-	-	133,027	103,809
Pension related debt (LGERS)	200,773	47,886	-	-	200,773	47,886
Pension related debt (LEO)	77,602	144,172	-	-	77,602	144,172
Total	<u>\$ 577,540</u>	<u>\$ 491,313</u>	<u>\$ 636,696</u>	<u>\$ 720,288</u>	<u>\$ 1,214,236</u>	<u>\$ 1,211,601</u>

Town of Montreat's Outstanding Debt

The Town of Montreat's total debt increased by \$2,635 (0.22%) during the past fiscal year, primarily due to the increase in pension related debt.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Montreat is \$19,486,350.

Additional information regarding the Town of Montreat's long-term debt can be found in Note 2 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- The population of Montreat is estimated to have grown by 15% over the last 10-year census period, from 630 in 2000 to 724 in 2010. The most recent estimate for 2016 is 798. This represents a recovery from the past few years, during which it had experienced some decline. (Source: US Census Bureau and NC State Demographics Unit)
- While Montreat is mainly a residential community, there are two large institutions located within our town limits: the Mountain Retreat Association d/b/a Montreat Conference Center and Montreat College. The number of conferences hosted by the Montreat Conference Center decreased from 12,200 in 2016 to 10,500 in 2017. The number of full-time equivalent employees at the Montreat Conference Center has remained at around 60 for the past three years. The operating budget for Montreat Conference Center has increased from \$7 million in 2016 to \$7.5 million in 2017. The total headcount enrollment of full and part-time students on the Montreat College main campus increased from 477 in fall 2016 to 509 in fall 2017. The number of employees at the Montreat campuses increased from 125 in fall 2016 to 127 in 2017. The operating budget for Montreat College increased from \$20.2 million in 2016 to \$20.5 million in 2017. (Source: Montreat Conference Center and Montreat College)
- The total valuation of real property within the jurisdiction of the Town of Montreat for calendar year 2016 was \$245,656,098. (Source: Buncombe County)

- A total of 87 building permits were issued by the Town. This is a decrease of 10 from the previous year. Given that the size and scope of building projects can differ considerably from year to year to year, all that can be reasonably be inferred from this is that the building activity within Montreat has been relatively stable. (Source: Town of Montreat)
- The Town delivered a total of 28,400,116 gallons of water through fiscal year ended 2017, an increase of 27%. (Adjustments for several major leaks reduced the amount of billable water.) (Source: Town of Montreat)

Budget Highlights for the Fiscal Year Ending June 30, 2018

Governmental Activities:

- Budgeted General Fund revenues for the fiscal year ending June 30, 2018 have been estimated at \$1,880,252. This represents an increase of \$124,052, or 7%, from the final actual revenues of \$1,756,200 for the fiscal year ended June 30, 2017. This increase is mostly due to minor changes in the expected amounts to be received in several revenue accounts.
- Budgeted expenditures in the General Fund for the fiscal year ending June 30, 2018 equal \$2,007,970. This represents an increase of \$128,970, or 6%, from the final actual expenditures of \$1,879,000 for fiscal year ended June 30, 2017. Most of the increase is due to anticipated expenditures for the early stages of building a new Town Hall.
- Other financing sources (appropriated fund balance) for the General Fund for fiscal year ending 2018 are budgeted at \$127,718. This compares with actual other financing sources (debt issued) for the fiscal year ended 2017 of \$-0-, which is an increase of \$127,718. Note that the Town routinely budgets an appropriation of fund balance in excess of what it ultimately uses. In the fiscal year ended 2017, an appropriation of fund balance of \$122,800 was left entirely unused.

Business-Type Activities:

- Budgeted Water Fund revenues for the fiscal year ending June 30, 2018 have been estimated at \$368,603. This represents an increase of \$16,662, or 4%, from the final actual revenues of \$351,941 for the fiscal year ended June 30, 2017. This is due to the unpredictable variability in the repayment of special assessment taxes.
- Budgeted Water Fund expenditures and debt service for the fiscal year ending June 30, 2018 equal \$364,711. This is an increase of \$100,564, or 38%, from the final actual expenditures of \$264,147 for fiscal year ended June 30, 2017. This is due to budgeting for additional capital projects.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Alex Carmichael, Town Administrator, P.O. Box 423, Montreat, North Carolina 28757, or call (828) 669-8002.

**BASIC
FINANCIAL STATEMENTS**

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TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,792,657	\$ 753,373	\$ 2,546,030
Taxes receivable, net	1	-	1
Accounts receivable, net	98,805	71,780	170,585
Inventories	-	19,078	19,078
Prepaid items	10,767	860	11,627
Restricted cash and cash equivalents	231,781	2,909	234,690
Total current assets	<u>2,134,011</u>	<u>848,000</u>	<u>2,982,011</u>
Non-current assets:			
Capital assets:			
Land and construction in progress	1,692,230	367,968	2,060,198
Other capital assets, net of depreciation	2,223,427	1,300,947	3,524,374
Total non-current assets	<u>3,915,657</u>	<u>1,668,915</u>	<u>5,584,572</u>
Total assets	<u>6,049,668</u>	<u>2,516,915</u>	<u>8,566,583</u>
Deferred Outflows of Resources:			
Pension deferrals	141,596	-	141,596
Contributions to pension plan in current fiscal year	45,161	-	45,161
Total deferred outflows of resources	<u>186,757</u>	<u>-</u>	<u>186,757</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	211,369	22,450	233,819
Liabilities payable from restricted assets	-	2,909	2,909
Current portion of long-term liabilities	29,677	83,928	113,605
Current portion of compensated absences	13,303	-	13,303
Total current liabilities	<u>254,349</u>	<u>109,287</u>	<u>363,636</u>
Long-term liabilities:			
Total pension liability	77,602	-	77,602
Net pension liability	200,773	-	200,773
Due in more than one year	256,185	552,768	808,953
Total long-term liabilities	<u>534,560</u>	<u>552,768</u>	<u>1,087,328</u>
Total liabilities	<u>788,909</u>	<u>662,055</u>	<u>1,450,964</u>
Deferred Inflows of Resources:			
Pension deferrals	12,525	-	12,525
Prepaid taxes	1,500	-	1,500
Total deferred inflows of resources	<u>14,025</u>	<u>-</u>	<u>14,025</u>
Net Position:			
Net investment in capital assets	3,749,519	1,032,219	4,781,738
Restricted for:			
Stabilization for State statute	98,805	-	98,805
Streets	231,781	-	231,781
Unrestricted	1,353,386	822,641	2,176,027
Total net position	<u>\$ 5,433,491</u>	<u>\$ 1,854,860</u>	<u>\$ 7,288,351</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 604,294	\$ 89,095	\$ 95,651	\$ -
Public safety	439,093	3,371	-	-
Transportation	380,618	-	40,917	-
Environmental protection	96,173	6,521	10,882	3,694
Cultural and recreation	20,419	-	-	-
Interest on long-term debt	6,221	-	-	-
Total governmental activities	<u>1,546,818</u>	<u>98,987</u>	<u>147,450</u>	<u>3,694</u>
Business-Type Activities:				
Water	<u>272,343</u>	<u>351,697</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>272,343</u>	<u>351,697</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 1,819,161</u>	<u>\$ 450,684</u>	<u>\$ 147,450</u>	<u>\$ 3,694</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Functions/Programs:			
Primary Government:			
Governmental Activities:			
General government	\$ (419,548)	\$ -	\$ (419,548)
Public safety	(435,722)	-	(435,722)
Transportation	(339,701)	-	(339,701)
Environmental protection	(75,076)	-	(75,076)
Cultural and recreation	(20,419)	-	(20,419)
Interest on long-term debt	(6,221)	-	(6,221)
Total governmental activities	(1,296,687)	-	(1,296,687)
Business-Type Activities:			
Water	-	79,354	79,354
Total business-type activities	-	79,354	79,354
Total primary government	(1,296,687)	79,354	(1,217,333)
General Revenues:			
Taxes:			
Property taxes, levied for general purposes	974,695	-	974,695
Local option sales tax	402,651	-	402,651
Investment earnings, unrestricted	3,643	244	3,887
Miscellaneous	6,115	-	6,115
Total general revenues	1,387,104	244	1,387,348
Change in net position	90,417	79,598	170,015
Net Position:			
Beginning of year - July 1	5,269,195	1,775,262	7,044,457
Prior period adjustment	73,879	-	73,879
Beginning of year, as restated	5,343,074	1,775,262	7,118,336
End of year - June 30	\$ 5,433,491	\$ 1,854,860	\$ 7,288,351

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2017**

	General Fund
Assets:	
Cash and cash equivalents	\$ 1,792,657
Taxes receivable, net	1
Accounts receivable, net	98,805
Prepaid items	10,767
Restricted cash	231,781
 Total assets	 \$ 2,134,011
Liabilities, Deferred Inflows of Resources, and Fund Balance:	
Liabilities:	
Accounts payable	\$ 209,390
Total liabilities	209,390
Deferred Inflows of Resources:	
Property tax receivable	1
Prepaid taxes	1,500
Total deferred inflows of resources	1,501
Fund Balance:	
Non-spendable:	
Prepays	10,767
Restricted:	
Stabilization by State statute	98,805
Streets	231,781
Committed:	
Open space	34,983
Assigned:	
Public safety	54,579
Subsequent year's expenditures	127,718
Unassigned	1,364,487
Total fund balance	1,923,120
 Total liabilities, deferred inflows of resources, and fund balance	 \$ 2,134,011

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2017

	General Fund
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balance	\$ 1,923,120
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	3,915,657
Net pension liability - LGERS	(200,773)
Total pension liability - LEOSSA	(77,602)
Benefit payments and pension administration costs for LEOSSA are deferred outflows of resources on the Statement of Net Position.	5,150
Contributions to the pension plan in the current fiscal year and deferred outflows of resources on the Statement of Net Position.	181,607
Long-term liabilities, compensated absences, and interest payable are not due and payable in the current period and, therefore, are not reported in the funds.	(301,144)
Pension related deferrals	(12,525)
Deferred inflows in the governmental funds are used to offset accounts receivable not expected to be received within 90 days of year-end. These receivables are a component of net position in the Statement of Net Position.	1
Net position of governmental activities	\$ 5,433,491

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund
	<u> </u>
Revenues:	
Ad valorem taxes	\$ 974,703
Other taxes and licenses	402,651
Unrestricted intergovernmental revenues	94,995
Restricted intergovernmental revenues	47,438
Permits and fees	89,095
Sales and services	14,909
Investment earnings	3,643
Miscellaneous	9,809
Total revenues	<u>1,637,243</u>
Expenditures:	
Current:	
General government	409,101
Public safety	449,767
Transportation	486,518
Environmental protection	158,977
Cultural and recreation	7,644
Debt service:	
Principal	29,308
Interest	4,242
Total expenditures	<u>1,545,557</u>
Net change in fund balance	91,686
Fund Balance:	
Beginning of year - July 1	<u>1,831,434</u>
End of year - June 30	<u>\$ 1,923,120</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Net change in fund balances - total governmental funds (Exhibit D)	\$	91,686
<p>Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected, or is expected to be collected, within 90 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenue types:</p>		
Property taxes		(8)
Change in deferred outflow - pension		1,264
Change in deferred inflows - pension		16,739
Change in net pension liability		(152,887)
Change in pension deferral		125,718
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.		(29,218)
Expenses related to interest expense that do not require current financial resources are not reported as expenditures.		(1,979)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.		284,259
Net book value of capital assets disposed of during the year, not recognized on the modified accrual basis.		(156,720)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.		(115,101)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.		45,161
Expenses related to pensions that do not require current financial resources are not reported as expenditures in the governmental funds statement.		(45,161)

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	29,308
Expenses that do not require current financial resources are not reported in expenditures in the governmental funds statement. LEO expense	<u>(2,644)</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 90,417</u>

TOWN OF MONTREAT, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Over/Under</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Ad valorem taxes	\$ 965,600	\$ 965,600	\$ 974,703	\$ 9,103
Other taxes and licenses	402,000	402,000	402,651	651
Unrestricted intergovernmental revenues	105,000	105,000	94,995	(10,005)
Restricted intergovernmental revenues	40,500	40,500	47,438	6,938
Permits and fees	90,000	90,000	89,095	(905)
Sales and services	14,700	14,700	14,909	209
Investment earnings	2,200	2,200	3,643	1,443
Miscellaneous	136,200	136,200	9,809	(126,391)
Total revenues	<u>1,756,200</u>	<u>1,756,200</u>	<u>1,637,243</u>	<u>(118,957)</u>
Expenditures:				
General government	570,200	561,700	409,101	152,599
Public safety	438,300	456,000	449,767	6,233
Transportation	656,600	646,800	486,518	160,282
Environmental protection	162,200	162,800	158,977	3,823
Cultural and recreation	18,000	18,000	7,644	10,356
Debt service:				
Principal	29,400	29,400	29,308	92
Interest	4,300	4,300	4,242	58
Total debt service	<u>33,700</u>	<u>33,700</u>	<u>33,550</u>	<u>150</u>
Total expenditures	<u>1,879,000</u>	<u>1,879,000</u>	<u>1,545,557</u>	<u>333,443</u>
Revenues over (under) expenditures	<u>(122,800)</u>	<u>(122,800)</u>	<u>91,686</u>	<u>214,486</u>
Other Financing Sources (Uses):				
Fund balance appropriated	<u>122,800</u>	<u>122,800</u>	<u>-</u>	<u>(122,800)</u>
Total other financing sources (uses)	<u>122,800</u>	<u>122,800</u>	<u>-</u>	<u>(122,800)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	91,686	<u>\$ 91,686</u>
Fund Balance:				
Beginning of year - July 1			<u>1,831,434</u>	
End of year - June 30			<u>\$ 1,923,120</u>	

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

**STATEMENT OF NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2017**

	<u>Water Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 753,373
Accounts receivable, net	71,780
Inventory	19,078
Prepays	860
Restricted cash and cash equivalents	<u>2,909</u>
Total current assets	<u>848,000</u>
Non-current assets:	
Land and construction in process	367,968
Other capital assets, net	<u>1,300,947</u>
Total capital assets	<u>1,668,915</u>
Total assets	<u>2,516,915</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	22,450
Bonds payable, current	28,000
ARRA debt, current	26,523
Note payable, current	29,405
Liabilities payable from restricted assets:	
Customer deposits	<u>2,909</u>
Total current liabilities	<u>109,287</u>
Non-current liabilities:	
Bonds payable	90,000
ARRA debt	352,368
Note payable	<u>110,400</u>
Total non-current liabilities	<u>552,768</u>
Total liabilities	<u>662,055</u>
Net Position:	
Net investment in capital assets	1,032,219
Unrestricted	<u>822,641</u>
Total net position	<u>\$ 1,854,860</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2017

	<u>Water Fund</u>
Operating Revenues:	
Charges for services	\$ 301,765
Other	49,932
Total operating revenues	<u>351,697</u>
Operating Expenses:	
Water operations	163,482
Depreciation	91,788
Total operating expenses	<u>255,270</u>
Operating income (loss)	<u>96,427</u>
Non-Operating Revenues (Expenses):	
Investment earnings	244
Interest expense	<u>(17,073)</u>
Total non-operating revenues (expenses)	<u>(16,829)</u>
Change in net position	79,598
Net Position:	
Beginning of year - July 1	<u>1,775,262</u>
End of year - June 30	<u>\$ 1,854,860</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Water Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 375,859
Cash paid for goods and services	(130,947)
Cash paid to employees for services	(34,149)
Net cash provided (used) by operating activities	<u>210,763</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(19,874)
Principal payment on long-term debt	(83,592)
Interest payment on long-term debt	(17,816)
Net cash provided (used) by capital and related financing activities	<u>(121,282)</u>
Cash Flows from Investing Activities:	
Interest received	<u>244</u>
Net increase (decrease) in cash, cash equivalents, and investments	89,725
Cash and Cash Equivalents:	
Beginning of year - July 1	<u>666,557</u>
End of year - June 30	<u>\$ 756,282</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:	
Operating income (loss)	\$ 96,427
Depreciation	91,788
Change in assets and liabilities:	
Accounts receivables	23,829
Inventories	332
Accounts payable and accrued liabilities	(1,946)
Customer deposits	<u>333</u>
Net cash provided (used) by operating activities	<u>\$ 210,763</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Montreat (the “Town”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected Mayor and a five-member Board of Commissioners.

B. Basis of Presentation

Government-Wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole, or in part, by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town’s funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The Town reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for administration, public safety, and street maintenance.

The Town reports the following major enterprise fund:

Water Fund. This fund is used to account for the Town's water operations.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the Town's enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when the vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Buncombe County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Enterprise Capital Projects Fund. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

change functional appropriations by more than \$2,500. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted. During the year, several amendments to the original budget were necessary.

E. Excess Expenditures Over Appropriations

For the fiscal year ended June 30, 2017, the Town made expenditures in excess of the approved budget in the public safety department of the General Fund.

The Town will be more diligent in the future in monitoring the budget of the General Fund along with pre-auditing before approval.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

1. Deposits and Investments

All deposits of the Town are made in Board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Government Portfolio, an SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

Restricted cash at June 30, 2017 consists of the following:

Governmental Activities:

General Fund:

Powell Bill	\$ 231,781
Total governmental activities	<u>231,781</u>

Business-Type Activities:

Water Fund:

Customer deposits	<u>2,909</u>
Total business-type activities	<u>2,909</u>

Total restricted cash	<u>\$ 234,690</u>
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4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2016. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

6. Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The inventories of the Town's Enterprise Fund consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; building and improvements, \$5,000; infrastructure, \$20,000; equipment and furniture, \$5,000; vehicles and motorized equipment, \$10,000; \$5,000 computer software and computer equipment \$500. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30 years
Buildings	50 years
Improvements	25 years
Furniture and equipment	10 years
Vehicles	6 years
Computer equipment	3 years

8. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criteria: pension related deferrals and contributions made to the

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

pension plan in the 2017 fiscal year. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized until then. The Town has three items that meet the criteria for this category - prepaid taxes, property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year is considered a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

11. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Prepays – portion of fund balance that is not an available resource because it represents the year-end balance of prepaid items, which are not spendable resources.

Restricted Fund Balance - This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State Statute – portion of fund balance that is restricted by State statute [G.S. 159-8(a)].

Restricted for Streets – portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powel Bill funds.

Committed Fund Balance - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Montreat's governing body (highest level of decision-making authority). The governing board can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Committed for Open Space – portion of fund balance that the Board of Commissioners has assigned for conservation efforts.

Committed for Open Space:

Donor contribution	\$ 14,868
Town contribution	<u>20,115</u>
Total	<u><u>\$ 34,983</u></u>

Assigned Fund Balance - portion of fund balance that the Town of Montreat intends to use for specific purposes.

Assigned for Public Safety – portion of total fund balance that the Board of Commissioners has budgeted for employee benefits.

Subsequent Year's Expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriations by resources or appropriation within funds up to \$100,000.

Assigned Fund Balance:

Public safety	\$ 54,579
Subsequent year's expenditures	<u>127,718</u>
Total	<u><u>\$ 182,297</u></u>

Unassigned Fund Balance - the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The general fund is the only governmental fund that reports a positive unassigned fund balance.

The Town of Montreat has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-Town funds, and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

The Town of Montreat has adopted a minimum fund balance policy for the general fund, which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 10% of budgeted expenditures. Any portion of the general fund balance in excess of 10% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Fund Balance Available for Appropriation

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total fund balance - General Fund	\$ 1,923,120
Less:	
Stabilization by State statute	(98,805)
Non-spendable	<u>(10,767)</u>
Fund balance available for appropriation	<u>\$ 1,813,548</u>

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERs) and additions to/deductions from LGERs' fiduciary net position have been determined on the same basis as they are reported by LGERs. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Montreat's employer contributions are recognized when due and the Town of Montreat has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERs. Investments are reported at fair value.

II. Detail Notes On All Funds

A. Assets

1. Deposits

All of the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the Town's deposits had a carrying amount of \$2,767,256 and a bank balance of \$2,794,610. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2017, the Town's petty cash fund totaled \$245.

2. Investments

At June 30, 2017, the Town of Montreat had \$13,219 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard & Poor's. The Town has no policy regarding credit risk.

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk.

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limit the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2017.

3. Receivables – Allowance for Doubtful Accounts

The amounts presented in the balance sheet and the Statement of Net Position for the year ended June 30, 2017 are net of the following allowances for doubtful accounts:

Enterprise Fund:	
Water Fund - accounts receivable	\$ 3,697
Total	<u>\$ 3,697</u>

The Town of Montreat has no allowance for doubtful accounts for its governmental fund.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

4. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2017 was as follows:

	<u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2017</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 1,355,224	\$ -	\$ -	\$ 1,355,224
Construction in progress	<u>490,430</u>	<u>-</u>	<u>(153,424)</u>	<u>337,006</u>
Total capital assets not being depreciated	<u>1,845,654</u>	<u>-</u>	<u>(153,424)</u>	<u>1,692,230</u>
Capital Assets Being Depreciated:				
Buildings	1,921	-	-	1,921
Building improvements	59,507	-	-	59,507
Infrastructure	1,564,089	185,867	-	1,749,956
Equipment	777,857	-	-	777,857
IT equipment	82,164	1,500	(10,410)	73,254
Vehicles	<u>542,222</u>	<u>96,892</u>	<u>(218,760)</u>	<u>420,354</u>
Total capital assets being depreciated	<u>3,027,760</u>	<u>284,259</u>	<u>(229,170)</u>	<u>3,082,849</u>
Less Accumulated Depreciation:				
Buildings	48	48	-	96
Building improvements	38,018	3,594	-	41,612
Infrastructure	344,511	74,818	-	419,329
Equipment	69,338	1,421	-	70,759
IT equipment	79,312	1,056	(7,114)	73,254
Vehicles	<u>438,968</u>	<u>34,164</u>	<u>(218,760)</u>	<u>254,372</u>
Total accumulated depreciation	<u>970,195</u>	<u>\$ 115,101</u>	<u>\$ (225,874)</u>	<u>859,422</u>
Total capital assets being depreciated	<u>2,057,565</u>			<u>2,223,427</u>
Governmental activity capital assets, net	<u>\$ 3,903,219</u>			<u>\$ 3,915,657</u>

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Depreciation expense was charged to functions/programs of the primary government functions as follows:

General government	\$	4,030
Public safety		19,062
Transportation		79,234
Cultural and recreation		<u>12,775</u>
Total depreciation expense	\$	<u><u>115,101</u></u>

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2017 was as follows:

	<u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2017</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 367,968	\$ -	\$ -	\$ 367,968
Total capital assets not being depreciated	<u>367,968</u>	<u>-</u>	<u>-</u>	<u>367,968</u>
Capital Assets Being Depreciated:				
Buildings	142,110	-	-	142,110
Improvements	601,155	-	-	601,155
Infrastructure	1,981,518	19,874	-	2,001,392
Equipment	98,938	-	-	98,938
IT equipment	23,776	-	-	23,776
Vehicles	67,675	-	(27,868)	39,807
Total capital assets being depreciated	<u>2,915,172</u>	<u>19,874</u>	<u>(27,868)</u>	<u>2,907,178</u>
Less Accumulated Depreciation:				
Buildings	60,378	3,553	-	63,931
Improvements	63,618	19,909	-	83,527
Infrastructure	1,257,825	53,376	-	1,311,201
Equipment	69,039	14,950	-	83,989
IT equipment	23,776	-	-	23,776
Vehicles	67,675	-	(27,868)	39,807
Total accumulated depreciation	<u>1,542,311</u>	<u>\$ 91,788</u>	<u>\$ (27,868)</u>	<u>1,606,231</u>
Total capital assets being depreciated, net	<u>1,372,861</u>			<u>1,300,947</u>
Business-type activities capital assets, net	<u>\$ 1,740,829</u>			<u>\$ 1,668,915</u>

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2017 is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 3,915,657	\$ 1,668,915
Total debt, gross	166,138	636,696
Net investment in capital assets	\$ 3,749,519	\$ 1,032,219

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2017 were as follows:

	Salaries and Benefits	Vendors	Total
Governmental Activities:			
General	\$ 26,016	\$ 185,353	\$ 211,369
Total	\$ 26,016	\$ 185,353	\$ 211,369
Business-Type Activities:			
Water	\$ -	\$ 22,450	\$ 22,450
Total	\$ -	\$ 22,450	\$ 22,450

1. Pension Plan and Postemployment Obligations

a. Local Government Employees' Retirement System

Plan Description. The Town of Montreat is a participating employer in the State-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Montreat employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Montreat's contractually required contribution rate for the year ended June 30, 2017 was 8.00% of compensation for law enforcement officers and 7.25% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Montreat were \$45,161 for the year ended June 30, 2017.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By State law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual’s right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Town reported a liability of \$200,773 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town’s proportion was 0.00946%, which was a decrease of 0.00121% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$54,328. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,772	\$ 7,035
Changes of assumptions	13,751	-
Net difference between projected and actual earnings on pension plan investments	111,003	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	7,920	5,005
Town contributions subsequent to the measurement date	45,161	-
Total	\$ 181,607	\$ 12,040

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

\$45,161 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30	Amount
2018	\$ 19,325
2019	19,353
2020	54,373
2021	31,355
2022	-
Thereafter	-
Total	<u>\$ 124,406</u>

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are, therefore, not included in the measurement.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 476,528	\$ 200,773	\$ (29,558)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description*

The Town administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	5
Total	5

A separate report was not issued for the plan.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

2. Summary of Significant Accounting Policies

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria, which are outlined in GASB Statement 73.

3. Actuary Assumptions

The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increase	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate used to measure the total pension liability is the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

Deaths After Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths Before Retirement: RP-2014 Employee base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015.

Deaths After Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 103% for males and 99% for females.

Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 103% for males and 99% for females.

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

4. *Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this Plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$0 as benefits came due for the reporting period.

5. *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of resources Related to Pensions*

At June 30, 2017, the Town reported a total pension liability of \$77,602. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$7,794.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 485
Town benefit payments and plan administrative expense made subsequent to the measurement date	5,150	-
Total	\$ 5,150	\$ 485

\$5,150 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2018	\$ 104
2019	104
2020	104
2021	104
2022	69
Thereafter	-
Total	\$ 485

\$5,150 paid as benefits came due are reported as deferred outflows of resources.

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate. The following presents the Town's total pension liability calculated using the discount rate of 3.86%, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86%) or 1-percentage-point higher (4.86%) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total pension liability	\$ 79,588	\$ 77,602	\$ 75,518

**Schedule of Changes in Total Pension Liability
Law Enforcement Officer's Special Separation Allowance**

	2017
Beginning balance	\$ 70,293
Service cost	5,389
Interest on the total pension liability	2,509
Changes of assumptions or other inputs	(589)
Ending balance of the total pension liability	\$ 77,602

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers may also make voluntary contributions to the plan. Contributions for the year ended June 30, 2017 were \$18,447, which consisted of \$11,422 from the Town and \$7,025 from law enforcement officers. No amounts were forfeited.

d. Supplemental Retirement Income Plan for Employees Not Engaged in Law Enforcement

Funding Policy. The Town also contributes each month an amount equal to 5% of each non-law enforcement employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2017 were \$31,122, which consisted of \$21,772 from the Town and \$9,350 from the employees. No amounts were forfeited.

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

3. Deferred Outflows and Inflows of Resources

Deferred outflows of resources are comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 45,161
Pension deferrals	<u>141,596</u>
Total	<u>\$ 186,757</u>

Deferred inflows of resources at year-end are comprised of the following:

<u>Source</u>	<u>Amount</u>
Property taxes receivable (General Fund)	\$ 1
Prepaid taxes not yet earned	1,500
Changes in assumptions	485
Differences between expected and actual experience	7,035
Changes in proportion and differences between Town contributions and proportionate share of contributions	<u>5,005</u>
	<u>\$ 14,026</u>

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability of property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town does not carry flood insurance due to its geographic location.

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Town Administration and the Finance Officer are each individually bonded for \$50,000. The Town Clerk is bonded for \$10,000.

5. Long-Term Obligations

a. Installment Purchase

The Town's installment purchases at June 30, 2017 are comprised of the following individual issues:

In November 2015, the Town entered into a note with a private banking institution for \$162,000 to finance the construction of the Upper Kentucky Road Water Extension Project. The note is payable in 10 annual installments beginning in November 2016 with an interest rate of 2.12%. \$ 145,800

In December 2015, the Town entered into a note with a private banking institution for \$39,875 to finance the purchase of a vehicle. The note is payable in 36 monthly installments beginning in January 2016 with an interest rate of 2.731%. 20,338

Total installment debt - General Fund \$ 166,138

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Annual debt service payments of the installment purchases as of June 30, 2017, including \$16,139 of interest, are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2018	\$ 29,677	\$ 3,515
2019	23,061	2,867
2020	16,200	2,437
2021	16,200	2,095
2022	16,200	1,741
2023-2026	64,800	3,484
Total	\$ 166,138	\$ 16,139

In March 2013, the Town entered into \$74,750 in certificates of participation to finance the purchase of equipment. The financing contract required principal payments beginning in March 2014 with an interest rate of 2.19%. \$ 15,605

In November 2015, the Town entered into a note with a private banking institution for \$138,000 to finance the construction of the Upper Kentucky Road water extension project. The note is payable in 10 annual installments beginning in November 2016 with an interest rate of 2.12%. 124,200

ARRA principal forgiveness loan for the construction of two water-related projects. The loan has a maximum amount of \$492,995 of which \$246,947 could be debt. The loan is payable in 20 annual installments beginning at the time the project is completed. The H-ARRA-09-1289 and H-ARRA-09-1290A are interest free. The H-LRXF-08-1290A is at a 2.2% interest rate. 378,891

Total installment debt - Water Fund \$ 518,696

TOWN OF MONTREAT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Annual debt service payments of the installment purchases as of June 30, 2017, including \$48,607 of interest, are as follows:

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2018	\$ 55,928	\$ 7,376
2019	40,323	6,446
2020	40,323	5,858
2021	40,323	5,276
2022	40,323	4,683
2023-2027	187,815	14,603
2028-2032	113,661	4,365
Total	\$ 518,696	\$ 48,607

b. General Obligation Indebtedness

The Town's general obligation bond was issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

The Town's bond payable at June 30, 2017 is as follows:

Water bond, Series A general obligation bond, for \$609,000 was issued on August 22, 1983 to finance the purchase and construction of facilities utilized in the operations of the water system. The bond is due in annual payments, with accelerating principal maturities, plus interest at 5%.	\$ 118,000
Total general obligation debt - Water Fund	\$ 118,000

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2018	\$ 28,000	\$ 5,900
2019	28,000	4,500
2020	28,000	3,100
2021	28,000	1,700
2022	6,000	300
Total	\$ 118,000	\$ 15,500

c. Changes in Long-Term Liabilities

	July 1, 2016	Increases	Decreases	June 30, 2017	Current Portion
Governmental Activities:					
Installment purchase	\$ 195,446	\$ -	\$ 29,308	\$ 166,138	\$ 29,677
Total pension liability (LEO)	144,172	7,898	74,468	77,602	-
Net pension liability (LGERS)	47,886	152,887	-	200,773	-
Compensated absences	103,809	100,232	71,014	133,027	13,303
Governmental activity long-term liabilities	\$ 491,313	\$ 261,017	\$ 174,790	\$ 577,540	\$ 42,980
Business-Type Activities:					
Bonds payable	\$ 146,000	\$ -	\$ 28,000	\$ 118,000	\$ 28,000
Installment purchase	574,288	-	55,592	518,696	55,928
Business-type activity long-term liabilities	\$ 720,288	\$ -	\$ 83,592	\$ 636,696	\$ 83,928

At June 30, 2017, the Town had a legal debt margin of \$19,486,350.

III. Summary of Disclosure of Significant Contingencies

Federal and State-Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

TOWN OF MONTREAT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

IV. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ended June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period. As a result, net position for governmental activities increased by \$73,879.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

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TOWN OF MONTREAT, NORTH CAROLINA

**SCHEDULES OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPERATION ALLOWANCE
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>
Beginning balance	\$ 70,293
Service cost	5,389
Interest on the total pension liability	2,509
Changes of assumptions or other inputs	<u>(589)</u>
Ending balance of the total pension liability	<u>\$ 77,602</u>

The amounts presented for each fiscal year were determined as of the prior December 31.

TOWN OF MONTREAT, NORTH CAROLINA**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPERATION ALLOWANCE
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>
Total pension liability	\$ 77,602
Covered payroll	227,806
Total pension liability as a percentage of covered payroll	34.06%

Notes to the Schedules:

The Town of Montreat has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

TOWN OF MONTREAT, NORTH CAROLINA**PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST FOUR FISCAL YEARS *****LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.00946%	0.01067%	0.00934%	0.00133%
Town's proportion of the net pension liability (asset) (\$)	\$ 200,773	\$ 47,886	\$ (55,082)	\$ 124,155
Town's covered-employee payroll	\$ 623,948	\$ 631,711	\$ 587,628	\$ 614,739
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	32.18%	7.58%	(9.37%)	20.20%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

TOWN OF MONTREAT, NORTH CAROLINA**CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST FOUR FISCAL YEARS****LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 45,161	\$ 43,897	\$ 45,387	\$ 41,947
Contributions in relation to the contractually required contribution	<u>45,161</u>	<u>43,897</u>	<u>45,387</u>	<u>41,947</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 595,751	\$ 623,948	\$ 631,711	\$ 587,628
Contributions as a percentage of covered-employee payroll	7.58%	7.04%	7.18%	7.14%

This schedule is intended to show information for ten years.
Additional years' information will be displayed as it becomes available.

GENERAL FUND

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TOWN OF MONTREAT, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Taxes		\$ 974,703	
Total	\$ 965,600	974,703	\$ 9,103
Other Taxes and Licenses:			
Local option sales taxes		401,356	
Penalties and interest		1,295	
Total	402,000	402,651	651
Unrestricted Intergovernmental Revenues:			
Utility franchise tax		91,429	
Beer and wine tax		3,566	
Total	105,000	94,995	(10,005)
Restricted Intergovernmental Revenues:			
Solid waste disposal tax		521	
Powell Bill allocation		40,917	
Local grant		6,000	
Total	40,500	47,438	6,938
Permits and Fees:			
Community service fees		49,979	
Building permits		39,116	
Total	90,000	89,095	(905)
Sales and Services:			
Public safety charges		3,371	
Sanitation fees		10,882	
Other		656	
Total	14,700	14,909	209
Other:			
Investment earnings		3,643	
Miscellaneous		6,115	
Contributions		3,694	
Total	138,400	13,452	(124,948)
Total revenues	1,756,200	1,637,243	(118,957)

TOWN OF MONTREAT, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits		9,800	
Operating expenses		56,704	
Total	<u>72,000</u>	<u>66,504</u>	<u>5,496</u>
Administration:			
Salaries and employee benefits		180,600	
Operating expenses		111,114	
Capital outlay		1,500	
Total	<u>304,500</u>	<u>293,214</u>	<u>11,286</u>
Public Buildings:			
Operating expenses		37,838	
Capital outlay		11,545	
Total	<u>185,200</u>	<u>49,383</u>	<u>135,817</u>
Total general government	<u>561,700</u>	<u>409,101</u>	<u>152,599</u>
Public Safety:			
Police Department:			
Salaries and employee benefits		248,026	
Operating expenses		86,567	
Capital outlay		34,088	
Total	<u>371,000</u>	<u>368,681</u>	<u>2,319</u>
Planning and Zoning:			
Salaries and employee benefits		51,052	
Operating expenses		30,034	
Total	<u>85,000</u>	<u>81,086</u>	<u>3,914</u>
Total public safety	<u>456,000</u>	<u>449,767</u>	<u>6,233</u>
Transportation:			
Public Works:			
Salaries and employee benefits		56,693	
Operating expenses		19,020	
Total	<u>83,200</u>	<u>75,713</u>	<u>7,487</u>
Street:			
Salaries and employee benefits		114,819	
Operating expenses		98,560	
Capital outlay		197,426	
Total	<u>563,600</u>	<u>410,805</u>	<u>152,795</u>
Total transportation	<u>646,800</u>	<u>486,518</u>	<u>160,282</u>

TOWN OF MONTREAT, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Environmental Protection:			
Sanitation:			
Salaries and employee benefits		33,768	
Operating expenses		60,509	
Capital outlay		64,700	
Total	<u>162,800</u>	<u>158,977</u>	<u>3,823</u>
Total environmental protection	<u>162,800</u>	<u>158,977</u>	<u>3,823</u>
Cultural and Recreation:			
Recreation Commission:			
Operating expenses		2,644	
Capital outlay		5,000	
Total cultural and recreation	<u>18,000</u>	<u>7,644</u>	<u>10,356</u>
Debt Service:			
Principal retirement		29,308	
Interest and fees		4,242	
Total debt service	<u>33,700</u>	<u>33,550</u>	<u>150</u>
Total expenditures	<u>1,879,000</u>	<u>1,545,557</u>	<u>333,443</u>
Revenues over (under) expenditures	<u>(122,800)</u>	<u>91,686</u>	<u>214,486</u>
Other Financing Sources (Uses):			
Fund balance appropriated	<u>122,800</u>	-	
Total other financing sources (uses)	<u>122,800</u>	-	<u>(122,800)</u>
Net change in fund balance	<u>\$ -</u>	<u>91,686</u>	<u>\$ 91,686</u>
Fund Balance:			
Beginning of year - July 1		<u>1,831,434</u>	
End of year - June 30		<u>\$ 1,923,120</u>	

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MAJOR ENTERPRISE FUND

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TOWN OF MONTREAT, NORTH CAROLINA

ENTERPRISE FUND - WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 312,500	\$ 301,765	\$ (10,735)
Other	23,500	49,932	26,432
Total operating revenues	<u>336,000</u>	<u>351,697</u>	<u>15,697</u>
Non-operating revenues:			
Investment earnings	500	244	(256)
Total non-operating revenues	<u>500</u>	<u>244</u>	<u>(256)</u>
Total revenues	<u>336,500</u>	<u>351,941</u>	<u>15,441</u>
Expenditures:			
Operating expenditures:			
Repairs and maintenance		34,149	
Operating expenditures		129,333	
Total operating expenditures	<u>237,300</u>	<u>163,482</u>	<u>73,818</u>
Debt Service:			
Interest and fees		15,605	
Principal retirement		83,592	
Total debt service	<u>99,200</u>	<u>99,197</u>	<u>3</u>
Total expenditures	<u>336,500</u>	<u>262,679</u>	<u>73,821</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 89,262</u>	<u>\$ 89,262</u>
Reconciliation from Modified Accrual Basis to Full Accrual Basis:			
Revenues over (under) expenditures		\$ 89,262	
Reconciling items:			
Payment of debt principal		83,592	
Change in accrued interest payable		(1,468)	
Depreciation		<u>(91,788)</u>	
Change in net position		<u>\$ 79,598</u>	

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SUPPLEMENTAL FINANCIAL DATA

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TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2017

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2016</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2017</u>
2016-2017	\$ -	\$ 1,007,190	\$ 1,007,190	\$ -
2015-2016	7	-	7	-
2014-2015	1	-	1	-
2013-2014	-	-	-	-
2012-2013	1	-	-	1
2011-2012	-	-	-	-
2010-2011	-	-	-	-
2009-2010	-	-	-	-
2008-2009	-	-	-	-
2007-2008	-	-	-	-
Total	<u>\$ 9</u>	<u>\$ 1,007,190</u>	<u>\$ 1,007,198</u>	<u>1</u>

Ad valorem taxes receivable - net \$ 1

Reconciliation with Revenues:

Ad valorem taxes \$ 974,703
Ad valorem taxes - special assessment 33,069
Interest and penalties 1,295
Miscellaneous (1,869)

Total collections and credit \$ 1,007,198

TOWN OF MONTREAT, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2017

	Town-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 237,569,024	\$ 0.41	\$ 974,033	\$ 958,898	\$ 15,135
Special assessment	8,064,390	0.41	33,064	33,064	-
Penalties	22,683	0.41	93	93	-
Total	<u>245,656,098</u>		<u>1,007,190</u>	<u>992,055</u>	<u>15,135</u>
Total property valuation	<u>\$ 245,656,098</u>				
Net Levy			1,007,190	992,055	15,135
Uncollected taxes as of June 30, 2017			-	-	-
Current Year's Taxes Collected			<u>\$ 1,007,190</u>	<u>\$ 992,055</u>	<u>\$ 15,135</u>
Current Levy Collection Percentage			<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

**STATISTICAL
SECTION**

Town of Montreat
Net Position by Activity
Governmental and Business-Type Functions

	FYE 2017	FYE 2016	FYE 2015	FYE 2014
Governmental Activities				
Net Position:				
Net Investment in				
Capital Assets	\$ 3,749,519	\$ 3,707,773	\$ 3,731,572	\$ 3,394,389
Restricted	330,586	294,400	267,742	255,216
Unrestricted	1,353,386	1,267,022	910,515	1,016,240
Subtotal, Governmental Net Position	<u>\$ 5,433,491</u>	<u>\$ 5,269,195</u>	<u>\$ 4,909,829</u>	<u>\$ 4,665,845</u>
Business Type Activities				
Net Position:				
Net Investment in				
Capital Assets	\$ 1,032,219	\$ 1,020,541	\$ 1,180,864	\$ 1,036,410
Unrestricted	822,641	754,721	391,634	597,996
Subtotal, Business Type Net Position	<u>\$ 1,854,860</u>	<u>\$ 1,775,262</u>	<u>\$ 1,572,498</u>	<u>\$ 1,634,406</u>
Total Primary Government				
Net Position:				
Net Investment in				
Capital Assets	\$ 4,781,738	\$ 4,728,314	\$ 4,912,436	\$ 4,430,799
Restricted	330,586	294,400	267,742	255,216
Unrestricted	2,176,027	2,021,743	1,302,149	1,614,236
Total Net Position	<u>\$ 7,288,351</u>	<u>\$ 7,044,457</u>	<u>\$ 6,482,327</u>	<u>\$ 6,300,251</u>

Table 1

FYE 2013	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008
\$ 2,794,719	\$ 1,887,129	\$ 1,144,711	\$ 878,624	\$ 676,603	\$ 526,091
249,671	269,501	283,792	180,577	192,666	191,284
990,917	1,132,305	1,332,931	1,470,348	1,450,376	1,322,521
<u>\$ 4,035,307</u>	<u>\$ 3,288,935</u>	<u>\$ 2,761,434</u>	<u>\$ 2,529,549</u>	<u>\$ 2,319,645</u>	<u>\$ 2,039,896</u>
\$ 982,912	\$ 959,327	\$ 1,089,073	\$ 772,709	\$ 575,217	\$ 532,318
595,469	866,473	583,502	505,627	531,157	526,367
<u>\$ 1,578,381</u>	<u>\$ 1,825,800</u>	<u>\$ 1,672,575</u>	<u>\$ 1,278,336</u>	<u>\$ 1,106,374</u>	<u>\$ 1,058,685</u>
\$ 3,777,631	\$ 2,846,456	\$ 2,233,784	\$ 1,651,333	\$ 1,251,820	\$ 1,058,409
249,671	269,501	283,792	180,577	192,666	191,284
1,586,386	1,998,778	1,916,433	1,975,975	1,981,533	1,848,888
<u>\$ 5,613,688</u>	<u>\$ 5,114,735</u>	<u>\$ 4,434,009</u>	<u>\$ 3,807,885</u>	<u>\$ 3,426,019</u>	<u>\$ 3,098,581</u>

**Town of Montreat
Change in Net Position
Governmental Functions**

	FYE 2017	FYE 2016	FYE 2015	FYE 2014
Revenues:				
Program Revenues:				
Charges for Services:				
General Government	\$ 89,095	\$ 86,153	\$ 79,484	\$ 102,254
Public Safety	3,371	3,371	3,090	3,846
Transportation				-
Environmental Protection	6,521	14,472	447	388
Total Charges for Services	<u>\$ 98,987</u>	<u>\$ 103,996</u>	<u>\$ 83,021</u>	<u>\$ 106,488</u>
Operating Grants and Contributions	147,450	164,985	135,379	108,380
Capital Grants and Contributions	3,694	155,346	36,977	360,088
General Revenues:				
Taxes:				
Property Taxes	974,695	962,972	968,042	970,716
Other Taxes & Licenses	402,651	390,699	356,952	332,403
Grants & Contributions, non-program				
Investment earnings, unrestricted	3,643	1,709	1,073	1,629
Miscellaneous	6,115	2,116	10,362	194
Total Revenues	<u>\$ 1,637,235</u>	<u>\$ 1,781,823</u>	<u>\$ 1,591,806</u>	<u>\$ 1,879,898</u>
Expenses:				
General Government	\$ 604,294	\$ 479,543	\$ 551,016	\$ 347,272
Public Safety	439,093	450,926	415,119	418,288
Transportation	380,618	362,962	107,255	214,513
Environmental Protection	96,173	12,343	1,587	162,683
Cultural & Recreation	20,419	116,083	109,206	60,993
Interest on Long Term Debt	6,221	600	-	-
Total Expenses	<u>\$ 1,546,818</u>	<u>\$ 1,422,457</u>	<u>\$ 1,184,183</u>	<u>\$ 1,203,749</u>
Increase/(decrease) in net position before transfers	\$ 90,417	\$ 359,366	\$ 407,623	\$ 676,149
Transfers	-	-	-	(45,614)
Increase/(decrease) in net position	<u>\$ 90,417</u>	<u>\$ 359,366</u>	<u>\$ 407,623</u>	<u>\$ 630,535</u>

Table 2

FYE 2013	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008
\$ 94,897	\$ -	\$ -	\$ 1,390	\$ -	\$ -
3,396	39,701	47,610	41,793	49,806	51,510
-	-	-	-	-	-
325	494	473	498	41,278	42,325
<u>\$ 98,618</u>	<u>\$ 40,195</u>	<u>\$ 48,083</u>	<u>\$ 43,681</u>	<u>\$ 91,084</u>	<u>\$ 93,835</u>
105,034	134,045	132,343	139,196	48,276	46,394
584,932	385,151	5,550	60,272	12,800	-
892,839	886,345	873,863	875,331	868,213	857,051
313,951	307,211	280,616	277,467	300,486	334,775
-	-	-	-	146,242	58,489
1,850	5,915	7,921	14,591	21,996	55,594
20	15,931	1,134	1,891	7,628	13,253
<u>\$ 1,997,244</u>	<u>\$ 1,774,793</u>	<u>\$ 1,349,510</u>	<u>\$ 1,412,429</u>	<u>\$ 1,496,725</u>	<u>\$ 1,459,391</u>
\$ 403,785	\$ 411,493	\$ 348,601	\$ 400,771	\$ 372,544	\$ 399,433
417,698	450,064	418,103	398,889	400,467	339,693
137,836	338,622	317,661	374,792	333,633	341,160
203,889	17,779	27,743	63,120	105,353	110,613
102,532	96,161	90,850	54,052	2,340	-
-	-	467	2,201	2,266	3,252
<u>\$ 1,265,740</u>	<u>\$ 1,314,119</u>	<u>\$ 1,203,425</u>	<u>\$ 1,293,825</u>	<u>\$ 1,216,603</u>	<u>\$ 1,194,151</u>
\$ 731,504	\$ 460,674	\$ 146,085	\$ 118,604	\$ 280,122	\$ 265,240
14,868	66,827	85,800	91,300	87,600	93,100
<u>\$ 746,372</u>	<u>\$ 527,501</u>	<u>\$ 231,885</u>	<u>\$ 209,904</u>	<u>\$ 367,722</u>	<u>\$ 358,340</u>

Town of Montreat
Change in Net Position
Business-Type Functions

	FYE 2017	FYE 2016	FYE 2015	FYE 2014
Revenues:				
Program Revenues:				
Charges for Services:				
Water	\$ 351,697	\$ 450,882	\$ 320,392	\$ 346,006
Operating Grants and Contributions	-	-	-	-
Capital Grants and Contributions	-	-	-	-
General Revenues:				
Taxes:				
Property Taxes	-	-	-	-
Other Taxes & Licenses	-	-	-	-
Grants & Contributions, non-program	-	-	-	-
Investment earnings, unrestricted	244	152	75	102
Miscellaneous				
	<hr/>			
Total Revenues	\$ 351,941	\$ 451,034	\$ 320,467	\$ 346,108
Expenses:				
Water	\$ 272,343	\$ 251,345	\$ 382,375	\$ 335,697
	<hr/>			
Total Expenses	\$ 272,343	\$ 251,345	\$ 382,375	\$ 335,697
Increase/(decrease) in net position before transfers	\$ 79,598	\$ 199,689	\$ (61,908)	\$ 10,411
Transfers & Other Financing Sources	-	3,075	-	45,614
	<hr/>			
Increase/(decrease) in net position	\$ 79,598	\$ 202,764	\$ (61,908)	\$ 56,025
	<hr/> <hr/>			

Table 3

FYE 2013	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008
\$ 281,712	\$ 270,153	\$ 348,989	\$ 289,188	\$ 288,512	\$ 274,496
-	-	-	-	-	-
-	-	281,797	158,309	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
231	1,324	1,081	1,128	2,916	6,771
		-		8,213	-
<hr/>					
\$ 281,943	\$ 271,477	\$ 631,867	\$ 448,625	\$ 299,641	\$ 281,267
<hr/>					
\$ 171,006	\$ 223,169	\$ 151,828	\$ 185,363	\$ 164,352	\$ 165,983
<hr/>					
\$ 171,006	\$ 223,169	\$ 151,828	\$ 185,363	\$ 164,352	\$ 165,983
<hr/>					
\$ 110,937	\$ 48,308	\$ 480,039	\$ 263,262	\$ 135,289	\$ 115,284
(14,868)	(66,827)	(85,800)	(91,300)	(87,600)	(93,100)
<hr/>					
\$ 96,069	\$ (18,519)	\$ 394,239	\$ 171,962	\$ 47,689	\$ 22,184
<hr/>					

Town of Montreat
Change in Net Position
Total Primary Government

	FYE 2017	FYE 2016	FYE 2015	FYE 2014
Revenues:				
Program Revenues:				
Charges for Services:				
General Government	\$ 89,095	\$ 86,153	\$ 79,484	\$ 102,254
Public Safety	3,371	3,371	3,090	3,846
Transportation	-	-	-	-
Environmental Protection	6,521	14,472	447	388
Landcare	-	-	-	-
Water	351,697	450,882	320,392	346,006
Operating Grants and Contributions	147,450	164,985	135,379	108,380
Capital Grants and Contributions	3,694	155,346	36,977	360,088
General Revenues:				
Taxes:				
Property Taxes	974,695	962,972	968,042	970,716
Other Taxes & Licenses	402,651	390,699	356,952	332,403
Grants & Contributions, non-program	-	-	-	-
Investment earnings, unrestricted	3,887	1,861	1,148	1,731
Miscellaneous	6,115	2,116	10,362	194
Total Revenues	\$ 1,989,176	\$ 2,232,857	\$ 1,912,273	\$ 2,226,006
Expenses:				
General Government	\$ 604,294	\$ 479,543	\$ 551,016	\$ 347,272
Public Safety	439,093	450,926	415,119	418,288
Transportation	380,618	362,962	107,255	214,513
Environmental Protection	96,173	12,343	1,587	162,683
Landcare	20,419	116,083	109,206	60,993
Interest on Long Term Debt	6,221	600	-	-
Water	272,343	251,345	382,375	335,697
Total Expenses	\$ 1,819,161	\$ 1,673,802	\$ 1,566,558	\$ 1,539,446
Increase/(decrease) in net position before transfers	\$ 170,015	\$ 559,055	\$ 345,715	\$ 686,560
Transfers	-	3,075	-	-
Increase/(decrease) in net position	\$ 170,015	\$ 562,130	\$ 345,715	\$ 686,560

Table 4

FYE 2013	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008
\$ 94,897	\$ -	\$ -	\$ 1,390	\$ -	\$ -
3,396	39,701	47,610	41,793	49,806	51,510
-	-	-	-	-	-
325	494	473	498	41,278	42,325
-	-	-	-	-	-
281,712	270,153	348,989	289,188	288,512	274,496
105,034	134,045	132,343	139,196	48,276	46,394
584,932	385,151	287,347	218,581	12,800	-
892,839	886,345	873,863	875,331	868,213	857,051
313,951	307,211	280,616	277,467	300,486	334,775
-	-	-	-	146,242	58,489
2,081	7,239	9,002	15,719	24,912	62,365
20	15,931	1,134	1,891	15,841	13,253
\$ 2,279,187	\$ 2,046,270	\$ 1,981,377	\$ 1,861,054	\$ 1,796,366	\$ 1,740,658
\$ 403,785	\$ 411,493	\$ 348,601	\$ 400,771	\$ 372,544	\$ 399,433
417,698	450,064	418,103	398,889	400,467	339,693
137,836	338,622	317,661	374,792	333,633	341,160
203,889	17,779	27,743	63,120	105,353	110,613
102,532	96,161	90,850	54,052	2,340	-
-	-	467	2,201	2,266	3,252
171,006	223,169	151,828	185,363	164,352	165,983
\$ 1,436,746	\$ 1,537,288	\$ 1,355,253	\$ 1,479,188	\$ 1,380,955	\$ 1,360,134
\$ 842,441	\$ 508,982	\$ 626,124	\$ 381,866	\$ 415,411	\$ 380,524
-	-	-	-	-	-
\$ 842,441	\$ 508,982	\$ 626,124	\$ 381,866	\$ 415,411	\$ 380,524

Town of Montreat
Fund Balances/Net Position
All Funds

	FYE 2017	FYE 2016	FYE 2015	FYE 2014
Governmental Activities				
Nonspendable	\$ 10,767	\$ 15,394	\$ 9,986	\$ 4,872
Restricted	330,586	294,400	267,742	255,216
Committed	34,983	34,932	34,710	30,193
Assigned (Designated pre-2011)	182,297	177,192	382,322	419,290
Unassigned	1,364,487	1,309,516	762,256	697,978
Total General Fund Balance	<u>1,923,120</u>	<u>1,831,434</u>	<u>1,457,016</u>	<u>1,407,549</u>
Reconcile to Net Position	3,510,371	3,437,761	3,452,813	3,258,293
Governmental Net Position	<u>\$ 5,433,491</u>	<u>\$ 5,269,195</u>	<u>\$ 4,909,829</u>	<u>\$ 4,665,842</u>
Business-Type Activities				
Unrestricted	\$ 822,641	\$ 754,721	\$ 391,634	\$ 597,996
Total Water Fund Balance	<u>822,641</u>	<u>754,721</u>	<u>391,634</u>	<u>597,996</u>
Net investment in capital assets	1,032,219	1,020,541	1,180,864	1,036,410
Business-Type Net Position	<u>\$ 1,854,860</u>	<u>\$ 1,775,262</u>	<u>\$ 1,572,498</u>	<u>\$ 1,634,406</u>

Table 5

FYE 2013	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008
\$ -	\$ -	\$ 9,300	\$ -	\$ -	\$ -
249,671	269,501	283,792	280,575	312,119	319,247
26,854	52,675	24,005	-	-	-
54,177	53,923	683,744	717,435	667,435	480,183
1,115,891	1,222,858	810,104	834,992	820,455	775,623
1,446,593	1,598,957	1,810,945	1,833,002	1,800,009	1,575,053
2,588,714	1,689,978	950,489	696,547	519,636	464,843
<u>\$ 4,035,307</u>	<u>\$ 3,288,935</u>	<u>\$ 2,761,434</u>	<u>\$ 2,529,549</u>	<u>\$ 2,319,645</u>	<u>\$ 2,039,896</u>
\$ 595,469	\$ 522,985	\$ 583,502	\$ 505,627	\$ 531,157	\$ 526,367
595,469	522,985	583,502	505,627	531,157	526,367
982,912	959,327	1,089,073	772,709	575,217	532,318
<u>\$ 1,578,381</u>	<u>\$ 1,482,312</u>	<u>\$ 1,672,575</u>	<u>\$ 1,278,336</u>	<u>\$ 1,106,374</u>	<u>\$ 1,058,685</u>

Town of Montreat
Changes in Fund Balance
General Fund

	FYE 2017	FYE 2016	FYE 2015
Revenues			
Ad valorem taxes	\$ 974,703	\$ 966,124	\$ 968,685
Other taxes and licenses	402,651	390,699	356,952
Unrestricted intergovernmental revenues	94,995	98,336	86,869
Restricted intergovernmental revenues	47,438	205,259	76,307
Permits and fees	89,095	86,153	79,467
Sales and services	14,909	29,879	12,158
Investment earnings	3,643	1,709	1,073
Miscellaneous	9,809	6,816	10,939
Total revenues	<u>1,637,243</u>	<u>1,784,975</u>	<u>1,592,450</u>
Expenditures			
General government	409,101	479,832	560,520
Public Safety	449,767	434,507	432,969
Transportation	486,518	576,811	452,875
Environmental protection	158,977	103,308	96,431
Cultural and recreation	7,644	10,945	188
Debt Service:			
Principal	29,308	6,429	-
Interest	4,242	600	-
Total expenditures	<u>1,545,557</u>	<u>1,612,432</u>	<u>1,542,983</u>
Other Financing Sources (Uses)			
Transfers from Enterprise Fund	-	-	-
Transfers to Enterprise Fund	-	-	-
Debt/Installment purchase obligations issued	-	201,875	-
Total other financing uses	<u>-</u>	<u>201,875</u>	<u>-</u>
Net Change in Fund Balance	91,686	374,418	49,467
Prior Period Adjustment	-	-	-
Fund Balance:			
Beginning of Year - July 1	<u>1,831,434</u>	<u>1,457,016</u>	<u>1,407,549</u>
End of Year - June 30	<u>\$ 1,923,120</u>	<u>\$ 1,831,434</u>	<u>\$ 1,457,016</u>

Table 6

	FYE 2014	FYE 2013	FYE 2012	FYE 2011	FYE 2010	FYE 2009	FYE 2008
\$	973,858	\$ 895,333	\$ 879,659	\$ 873,310	\$ 877,564	\$ 865,993	\$ 858,966
	332,403	313,951	307,211	280,616	277,467	298,781	330,010
	59,392	41,756	55,856	56,934	60,802	71,242	58,489
	300,024	97,902	49,160	37,609	45,907	60,945	45,980
	102,255	94,898	36,003	35,626	39,412	39,884	34,849
	13,784	28,129	43,518	50,257	45,028	52,685	63,751
	1,629	1,850	5,915	7,921	14,591	22,347	56,008
	1,396	2,020	21,772	7,592	53,891	7,628	13,253
	1,784,741	1,475,839	1,399,094	1,349,865	1,414,662	1,419,505	1,461,306
	652,473	393,828	391,258	343,836	379,835	390,142	404,951
	390,135	468,435	424,235	391,460	393,707	397,414	346,352
	478,599	477,526	750,075	603,850	535,851	367,653	563,975
	95,994	101,260	96,161	90,044	89,127	90,520	97,307
	160,970	202,022	16,177	12,910	48,287	9,300	-
	-	-	-	15,156	23,961	24,854	23,868
	-	-	-	466	2,201	2,266	3,252
	1,778,171	1,643,071	1,677,906	1,457,722	1,472,969	1,282,149	1,439,705
	-	66,000	82,100	85,800	91,300	87,600	93,100
	(45,614)	(51,132)	(15,273)	-	-	-	-
	-	-	-	-	-	-	-
	(45,614)	14,868	66,827	85,800	91,300	87,600	93,100
	(39,044)	(152,364)	(211,985)	(22,057)	32,993	224,956	114,701
	-	-	(3)	-	-	-	-
	1,446,593	1,598,957	1,810,945	1,833,002	1,800,009	1,575,053	1,460,352
\$	1,407,549	\$ 1,446,593	\$ 1,598,957	\$ 1,810,945	\$ 1,833,002	\$ 1,800,009	\$ 1,575,053

Town of Montreat
 General Governmental Expenditure by Function
 (GAAP basis, Table 2)

Table 7

Fiscal Year Ended June 30	General Government	Public Safety	Transportation	Environmental Protection	Cultural & Recreation	Interest on Long Term Debt	Total
2017	604,294	439,093	380,618	96,173	20,419	6,221	1,546,818
2016	479,543	450,926	362,962	12,343	116,083	600	1,422,457
2015	551,016	415,119	107,255	1,587	109,206	-	1,184,183
2014	347,272	418,288	214,513	162,683	60,993	-	1,203,749
2013	403,785	417,698	137,836	203,889	102,532	-	1,265,740
2012	411,493	450,064	338,622	17,779	96,161	-	1,314,119
2011	348,601	418,103	317,661	27,743	90,850	467	1,203,425
2010	400,771	398,889	374,792	63,120	54,052	2,201	1,293,825
2009	372,544	400,467	333,633	105,353	2,340	2,266	1,216,603
2008	399,433	339,693	341,160	110,613	-	3,252	1,194,151

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Town of Montreat
General Governmental Revenue by Source
(GAAP basis, Table 2)

Fiscal Year Ended June 30	Ad Valorem Taxes	Other Taxes & Licenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
2017	974,695	402,651	98,987	147,450	3,694
2016	962,972	390,699	103,996	164,985	155,346
2015	968,042	356,952	83,021	135,379	36,977
2014	970,716	332,403	106,488	108,380	360,088
2013	892,839	313,951	98,618	105,034	584,932
2012	886,345	307,211	40,195	134,045	385,151
2011	873,863	280,616	48,083	132,343	5,550
2010	875,331	277,467	43,681	139,196	60,272
2009	868,213	300,486	91,084	48,276	12,800
2008	857,051	334,775	93,835	46,394	-

Table 8

Non-Program Grants & Contributions	Investment Earnings	Miscellaneous	Total
-	3,643	6,115	1,637,235
-	1,709	2,116	1,781,823
-	1,073	10,362	1,591,806
-	1,629	194	1,879,898
-	1,850	20	1,997,244
-	5,915	15,931	1,774,793
-	7,921	1,134	1,349,510
-	14,591	1,891	1,412,429
146,242	21,996	7,628	1,496,725
58,489	55,594	13,253	1,459,391

Town of Montreat
 Property Tax Levies & Collections - General Fund

Table 9

Fiscal Year Ended June 30	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections, Credits & Write-offs	Total Tax Collections	Ratio of Total Tax Collections to Tax Levy	Total Direct Tax Rate
2017	\$ 1,007,190	\$ 1,007,190	100.00%	\$ -	\$ 1,007,190	100.00%	0.41
2016	961,948	961,941	100.00%	3,159	965,100	100.33%	0.41
2015	963,203	961,143	99.79%	2,703	963,846	100.07%	0.41
2014	972,675	969,735	99.70%	6,083	975,818	100.32%	0.41
2013	905,262	898,808	99.29%	2,262	901,070	99.54%	0.37
2012	905,282	896,135	98.99%	2,461	898,596	99.26%	0.37
2011	875,507	874,635	99.90%	319	874,954	99.94%	0.37
2010	872,786	871,997	99.91%	(38,433)	833,564	95.51%	0.37
2009	867,101	863,797	99.62%	234	864,031	99.65%	0.37
2008	857,049	856,390	99.92%	2,574	858,964	100.22%	0.37

Note: Ratio of Total Collections to Levy sometimes exceeds 100% due to receipt of delinquent prior year taxes.

**Town of Montreat
Assessed Value of Taxable Property**

Table 10

Fiscal Year Ended June 30	TR-2 Calendar Tax Year	Real Property	Personal Property	Public Service Company Property	Total Assessed Value
2017	2016	\$ 243,527,907	\$ 815,827	\$ 1,312,364	\$ 245,656,098
2016	2015	232,735,307	877,970	1,008,186	234,621,463
2015	2014	230,269,600	1,289,222	939,831	232,498,653
2014	2013	230,421,550	1,082,225	932,493	232,436,268
2013	2012	236,135,700	898,184	955,716	237,989,600
2012	2011	233,103,700	689,425	982,902	234,776,027
2011	2010	231,794,950	621,110	1,009,996	233,426,056
2010	2009	230,968,650	698,437	977,045	232,644,132
2009	2008	228,962,700	776,315	854,451	230,593,466
2008	2007	228,365,500	814,900	845,103	230,025,503

Town of Montreat
Property Tax Rates - Town of Montreat and Overlapping Jurisdictions
(Per \$100.00 of Assessed Value)

Table 11

Fiscal Year Ended June 30	Town of Montreat	Black Mountain Fire District	Buncombe County	Total Tax Rate
2017	0.4100	0.0990	0.6040	1.1130
2016	0.4100	0.0990	0.6040	1.1130
2015	0.4100	0.0990	0.6040	1.1130
2014	0.4100	0.0990	0.6040	1.1130
2013	0.3700	0.0900	0.5250	0.9850
2012	0.3700	0.0900	0.5250	0.9850
2011	0.3700	0.0900	0.5250	0.9850
2010	0.3700	0.0900	0.5250	0.9850
2009	0.3700	0.0900	0.5250	0.9850
2008	0.3700	0.0900	0.5250	0.9850

Source: Buncombe County Tax Department

**Ratio of Net General Obligation Bonded Debt to Assessed Value and
Net General Obligation Bonded Debt per Capita**

Fiscal Year Ended June 30	Assessed Value	General Obligation Bonded Debt	Ratio of Net General Obligation Bonded Debt to Assessed Value	Population	Net General Obligation Bonded Debt per Capita
2017	\$ 245,656,098	\$ -	0.00%	798	0.00%
2016	234,621,463	-	0.00%	792	0.00%
2015	232,498,653	-	0.00%	728	0.00%
2014	232,436,268	-	0.00%	704	0.00%
2013	237,989,600	-	0.00%	690	0.00%
2012	234,776,027	-	0.00%	688	0.00%
2011	233,426,056	-	0.00%	723	0.00%
2010	232,644,132	-	0.00%	701	0.00%
2009	230,593,466	-	0.00%	714	0.00%
2008	230,025,503	-	0.00%	730	0.00%

**Town of Montreat
 Computation of Legal Debt Margin
 June 30, 2017**

Table 13

Assessed value of taxable property	\$ 245,656,098
times	<u>0.08</u>
Debt limit (8% of assessed value)	<u>19,652,488</u>
Gross debt:	
Bonds Payable	118,000
Authorized & unissued bonds	-
Installment Purchase	<u>684,834</u>
Gross Debt	<u>802,834</u>
Less: Water Fund debts	<u>636,696</u>
Total amount of debt applicable to debt limit	<u>166,138</u>
Legal debt margin	<u><u>\$ 19,486,350</u></u>

Note: Bonds Payable are Water Fund, not General Obligation

Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures

Fiscal Year Ended June 30	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio, Debt Service to Total General Governmental Expenditures
2017	\$ -	\$ -	\$ -	\$ 1,546,818	0.00%
2016	-	-	-	1,422,457	0.00%
2015	-	-	-	1,184,183	0.00%
2014	-	-	-	1,203,749	0.00%
2013	-	-	-	1,265,740	0.00%
2012	-	-	-	1,314,119	0.00%
2011	-	-	-	1,203,425	0.00%
2010	-	-	-	1,293,825	0.00%
2009	-	-	-	1,216,603	0.00%
2008	-	-	-	1,194,151	0.00%

Note: The Town of Montreat has no General Obligation Bonded Debt at present.

Fiscal Year Ended June 30	Population	Per Capita Income	Median Age	School Enrollment	Unemployment Rate % (June)*
2017	798	N/A	N/A	6	3.9
2016	792	N/A	N/A	6	4.1
2015	728	N/A	N/A	6	5.0
2014	704	N/A	N/A	6	5.3
2013	690	\$ 20,075	24.3	6	6.7
2012	688	N/A	N/A	10	9.4
2011	723	N/A	24.2	N/A	10.6
2010	701	N/A	N/A	N/A	10.8
2009	714	N/A	N/A	N/A	10.6
2008	730	N/A	N/A	N/A	6.0

N/A = Data not available

* Unemployment rate data is for all of Buncombe County, Montreat-only data not available.

Source: NC Office of State Budget and Management, State Data Center,
Buncombe County Schools, Employment Security Commission

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**Town of Montreat
Ten Largest Taxpayers
June 30, 2017**

2017

Taxpayer	Classification	2016 Assessed Valuation	Percentage of Total Assessed Valuation
Mountain Retreat Center	Institutional	****	****
BES-LU LLC	Residential	1,411,200	0.60%
MCCASKILL, WM C	Residential	1,377,800	0.59%
NEALE, HENRY W & MARGARET C	Residential	1,367,200	0.58%
CLARK, JACQUELINE F	Residential	1,306,600	0.56%
MANDEVILLE, LLC	Residential	866,100	0.37%
HANNAH, WALTER W	Residential	834,500	0.36%
EVANS, E. CRAIG	Residential	817,000	0.35%
MING REAL ESTATE COMPANY LLC	Residential	812,000	0.35%
DUKE ENERGY PROGRESS	Utility	787,700	0.34%
NEALE, WNRV W	Residential	768,465	0.33%

**** Mountain Retreat Association holds the largest assessed valuation of property, but is a tax exempt entity and, thus, is not one of the largest taxpayers.

* Note: Comparative data from ten years ago not available

Source: Buncombe County Tax Department.

Table 16

2016

Classification	2015 Assessed Valuation	Percentage of Total Assessed Valuation
Institutional	****	****
Residential	936,800	0.40%
Residential	760,100	0.32%
Residential	1,109,800	0.47%
Residential	882,800	0.38%
Residential	886,100	0.38%
Residential	812,000	0.35%
Utility	774,136	0.33%

**Town of Montreat
Largest Employers
June 30, 2017**

Table 17

Montreat is a predominantly residential community. There are only two major employers, the Town of Montreat, and a few smaller organizations. The following is the data that is available:

Year	Montreat College	Montreat Conference Center	Town of Montreat	Total
2017	127	60	14	214
2016	125	60	14	214
2015	127	60	13	200
2014	187	60	14	261
2013	194	70	14	278
2012	149	70	14	233
2011	202	70	14	286
2010	233	70	15	318
2009	221	70	15	306
2008	231	70	15	316

Source: Montreat College, Montreat Conference Center

**Town of Montreat
Miscellaneous Statistics
June 30, 2017**

Table 18

Date of establishment	1966
Form of Government	Mayor-Council
Employees	
Full-time permanent	14
Vacancies	1
Other (Police Reserve)	2
Area	2.78 sq. miles
Town Facilities & Services	
Miles of Streets	15.6
Number of Street Lights	0
Police Protection:	
Number of full-time officers	5
Number of reserve officers	2
Inspections:	
Building permits issued	87
Water Service:	
Number of customers	673
Average daily consumption	77,800 gal
Miles of water mains	19
Number of wells	11
Facilities and Services provided by other entities:	
Fire Protection:	
Provided by Black Mountain/East Buncombe Fire District	
Education:	
Public K-12 school system operated by Buncombe County Schools	
Cultural and Recreational:	
All recreational facilities owned and operated by Montreat Conference Center	
Sewers:	
Sanitary sewer system operated by the Municipal Sewer District of Buncombe County	

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COMPLIANCE SECTION

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

“A Professional Association of Certified Public Accountants and Management Consultants”

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor’s Report

To The Honorable Mayor and
Members of the Board of Commissioners
Montreat, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Montreat, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprises the Town of Montreat’s basic financial statements, and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Montreat’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Montreat’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as Findings 2017-003, 2017-004, 2017-005, and 2017-006, in the accompanying Schedule of Findings and Responses to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as Findings 2017-001 and 2017-002 in the accompanying Schedule of Findings and Responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Montreat's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as Finding 2017-004.

Town of Montreat's Responses to Findings

The Town of Montreat's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
September 29, 2017

TOWN OF MONTREAT, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted? Yes

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

2. Financial Statement Findings

Finding 2017-001

Significant Deficiency

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: Due to the limited number of personnel in the Town office, there are inherent limitations to the segregation of duties among Town personnel.

Effect: Errors in financial reporting could occur and not be detected.

Cause: There are a limited number of personnel for certain functions.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit 2016-001.

Recommendation: Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. Alternative controls should be used to compensate for any lack of segregation of duties. The Town Commissioners should provide some of these controls.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

2. Financial Statement Findings (continued)

Finding 2017-002

Significant Deficiency

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board (GAAP) requires a level of technical expertise not typically required to perform normal day-to-day operations. The Town's personnel does not prepare full accrual, full disclosure GAAP financial statements.

Effect: Errors in financial reporting could occur.

Cause: There are limited Town resources as it relates to the preparation of full accrual, full disclosure, and year-end financial statements.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit 2016-002.

Recommendation: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears prohibitive. Therefore, the Town should exercise due care in reviewing the financial statements drafted by the external auditor and overseeing the drafting services as the Town is responsible for the accuracy of the audited financial statements.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

2. Financial Statement Findings (continued)

Finding 2017-003

Material Weakness

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgement, may not have been detected except through our auditing procedures. The existence of such material adjustments indicates that the Town's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Effect: Adjustments not posted could cause misstatement of the account balances.

Cause: There are limited Town resources as it relates to the preparation of some year-end adjustments for financial reporting purposes.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit 2016-003.

Recommendation: Management should examine the adjustments required as a result of our audit and assess the cost/benefit of improving the internal control system to prevent the adjustments in the future, given the unit's available financial resources. Management should acknowledge inherent limitations in the internal control system caused by limited resources and modify their oversight function accordingly.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

2. Financial Statement Findings (continued)

Finding 2017-004

Material Weakness

Criteria: Management should have a system in place to reduce the likelihood that violations of North Carolina General Statutes occur and go undetected. N.C. General Statute 159-8(a) requires that all money received and expended by a local government should be included in the budget ordinance.

Condition: In the current year, there was a violation of the N.C. General Statute 159-8(a). Expenditures exceeded appropriations and, therefore, was a failure of the pre-audit requirement. The budget amendment and pre-audit process was not effective.

Effect: The Town was in violation of North Carolina General Statutes.

Cause: Inadequate budget monitoring by management. The Town expended more than had been budgeted in the budget ordinance in the public safety department.

Recommendation: Implement stringent budgetary monitoring controls to prevent expenditures from exceeding appropriations.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

2. Financial Statement Findings (continued)

Finding 2017-005

Material Weakness

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Controls over journal entries have been designed but not properly implemented. Journal entries are being entered without the proper supporting documentation, approval, or review.

Effect: Lack of proper implementation of internal control policies greatly increases the risk of an error or irregularity going undetected and can result in improper financial reporting.

Cause: Due to turnover in key financial personnel, there is a limited number of personnel for certain internal control functions.

Recommendation: Strengthen the internal controls over the journal entry function. Limit duties and general ledger write-access to certain individuals as much as possible to implement segregation of duties. Implement an overall review process for journal entries on a regular basis.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

2. Financial Statement Findings (continued)

Finding 2017-006

Material Weakness

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: In the current year, we noted lack of approval on timesheets by the Town Administrator.

Effect: Lack of proper implementation of internal control policies greatly increases the risk of an error or irregularity going undetected and can result in improper financial reporting.

Cause: The Town's Finance Department does not have adequate safeguards in place to monitor internal control over timesheets and the payroll system.

Recommendation: We recommend that the Town strengthen internal controls over timesheet approvals for all Town employees.

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.



**TOWN OF MONTREAT, NORTH CAROLINA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2017**

Financial Statement Findings

Significant Deficiencies

Finding 2017-001

Name of Contact Person: Alex Carmichael, Town Administrator

Corrective Action: The Town Administrator reviews and approves all journal entries, payroll, and bank reconciliations.

Proposed Completion Date: Immediately

Finding 2017-002

Name of Contact Person: Alex Carmichael, Town Administrator

Correction Action: Management has evaluated the cost benefit and has chosen to engage the external auditor to perform this function. The Town exercises due care in reviewing the financial statements drafted by the external auditor and reconciles the statements to the Town's financial records. The Town is responsible for the accuracy of the audited financial statements.

Proposed Completion Date: Immediately

Material Weaknesses

Finding 2017-003

Name of Contact Person: Alex Carmichael, Town Administrator

Corrective Action: Management is aware that year-end audit adjustments are typically required. Management will examine controls in place to see if they can be strengthened, given available resources, thus reducing the number of audit adjustments required at year-end. In the areas where the cost/benefit does not justify improving the control system, management will exercise due caution in performing their oversight function.

Proposed Completion Date: Immediately



**TOWN OF MONTREAT, NORTH CAROLINA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2017**

Finding 2017-004

Name of Contact Person: Alex Carmichael, Town Administrator

Corrective Action: Management implemented a new automated purchase order system in the fourth quarter of FYE 2017. This system will assure that a pre-audit certification is issued for all Town expenditures, and thus will assure compliance with the relevant State law.

Proposed Completion Date: Immediately

Finding 2017-005

Name of Contact Person: Alex Carmichael, Town Administrator

Corrective Action: The Town administration has a procedure developed that provides for the Finance Officer to submit draft general journal entries to the Town Administrator for review and approval prior to their being posted. Transition in positions among the Town staff has resulted in this procedure not being immediately and perfectly implemented. Progress continues, and the Town is confident that this procedure will be fully implemented and followed in FYE 18.

Proposed Completion Date: Immediately

Finding 2017-006

Name of Contact Person: Alex Carmichael, Town Administrator

Corrective Action: The Town administration has implemented review procedures over all employees' timesheets. Department heads are responsible for approving timesheets of employees and the Town Administrator is responsible for reviewing and approving all employees and department heads' timesheets before payroll is completed and paid. The Town is confident that this procedure will be fully implemented and followed in FYE 18.

Proposed Completion Date: Immediately

TOWN OF MONTREAT, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

Finding 2016-001

Status: Repeated as Finding 2017-001. Duties are being separated as much as possible and alternative controls have been implemented to the extent possible to compensate for lack of separation.

Corrective Action: The Town Administrator reviews and approves all journal entries, payroll, and bank reconciliations. The governing board is involved in reviewing financial results.

Finding 2016-002

Status: Repeated as Finding 2017-002. Management has evaluated the cost benefit and has chosen to engage the external auditor to perform this function.

Corrective Action: The Town exercises due care in reviewing the financial statements drafted by the external auditor and reconciles the statements to the Town's financial records. The Town is responsible for the accuracy of the audited financial statements.

Finding 2016-003

Status: Repeated as Finding 2017-003.

Corrective Action: Management is aware that year-end audit adjustments are typically required. Management will examine controls in place to see if they can be strengthened, given available resources, thus, reducing the number of audit adjustments required at year-end. In the areas where the cost/benefit does not justify improving the control system, management will exercise due caution in performing their oversight function.